THE CAPE TOWN INTERNATIONAL CONVENTION CENTRE: A POSITIVE ECONOMIC IMPACT CREATED THROUGH THE LEGALISATION OF GAMBLING

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DECLARATION

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any University for a degree

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ENGLISH ABSTRACT

The legalisation of gambling in South Africa was perceived by many as an unnecessary vice that would bring social decay in a country that is already battling to cope with a wide array of social woes, such as unemployment, crime, etc. Anti gambling protestors argued that South African society is not sufficiently developed to cope with an industry that diverts money from normal household budgetary expenditure patterns to the many forms of gambling that suddenly became legal. Protestors also argued that gambling tax is just another tax on an already overtaxed society. Many of these arguments were justified and the legalisation of gambling was clearly an issue, which had to be dealt with carefully.

Politicians, the custodians of a well-managed political system through pro-active policies that will be to the benefit of a country and its people were in a particularly difficult position with the creation of a legalized gambling industry and had to weigh policy between the advantage of additional tax revenue and the disadvantage of adding to the social ills of South African society. In terms of the Constitution of South Africa gambling was a concurrent competence and the respective provinces had an opportunity to develop gambling policy that will be beneficial to the relevant province. Although the national Gambling Act provided the broad parameters in which provincial legislation had to be developed, provinces had ample opportunity to be innovative in respect of provincial gambling legislation.

After the legalisation of gambling provinces moved quickly to ensure that casinos were developed, mainly to create a larger revenue base through gambling tax. Most provinces were cash-strapped, as their share of the national budget was not sufficient to deal with the long list of provincial development priorities. A way had to be found to supplement the national government contributions and gambling tax was an attractive option.

The Western Cape Province moved somewhat slower in the promulgation of provincial gambling legislation. There was a clear realisation that gambling was going to have a massive social impact on the population of the Western Cape and therefore had a clear objective to find ways to develop casinos in such a way that it would offset the negative impact of gambling.

This thesis did not place any emphasis on the quantification of the social impact (such as lack of productivity, loss of employment, bankruptcy, domestic violence, divorce, etc). The objective was to show that the allocation of a gambling licence could be used to create infrastructure that is not linked or related to a casino. Such infrastructure is normally in high demand in cities or regions, which are emerging as tourist destinations, but the infrastructure would not be developed by the government, as the capital cost is too high, nor by the private sectors as the profit margins are too low.

The Western Cape used its allocation of five casino licences in terms of the National Gambling Act to create an impact on the whole of the region by dividing the province into five regions and allocating a casino licence to each of the regions.

Since 1994 Cape Town and the Western Cape have gained prominence internationally as a tourist destination. It was soon clear that the city and region would not be able to cope with the influx of tourists due to a lack of hotel rooms and other tourism infrastructure. It was also clear that the tourism industry would not show the required growth without facilities, such as a convention centres. It is particularly a convention centre that became an urgent element in Cape Town as convention business has become a rapidly growing business with a potentially significant impact in terms of convention expenditure and the resulting economic impact on a city.

The Western Cape developed gambling policy determinations made it clear that in the case of the five regions, casino bid companies were obliged to include tourism infrastructure that would add value to a particular region. It was made clear that such infrastructure should not necessarily be linked with a casino and could be off-site. The policy determinations were clear in its stipulations that stand-alone casinos would not be entertained in the adjudication process.

The development of an international convention centre became an important criterion in the allocation of a casino licence in the Cape Metropole. Although casino bid companies included different kinds of infrastructure in their bids (mostly projects that would have a positive impact on tourism) the development of an international convention centre became a strong factor and the casino licence for the Cape Metropole was allocated to the company that included the development of an international convention centre in the their casino bid application.

Although convention centers are rarely profitable they are known to change the face of cities and regions in terms of their economic impact, not only the impact in terms of urban renewal opportunity, but also attracting domestic and international convention center delegate expenditure and the expenditure on hotels, food and beverage, transport, and general tourism expenditure. The direct, indirect and induced economic impact of this expenditure in the Western Cape and Cape Town result in the off-setting of the negative social impact and ensure that the benefits of the legalisation of gambling is extended to projects that would be unlikely developments in the absence of a casino licence allocated.

The study undertaken demonstrates the economic impact (direct, indirect and induced) of the Cape Town International Convention Centre. It also shows the impact of the center on the promotion of tourism, including convention center delegates returning to the Western Cape for leisure purposes in the future. It culminates in the conclusion that the allocation of a casino licence should not only be the development of a stand-alone casino, but also the creation of tourism infrastructure that offsets the negative impact of gambling.

OPSOMMING

Die wettiging van die dobbelindustrie was deur baie mense gesien as ‘n onnodige euwel wat net sou bydra tot sosiale verval in ‘n land wat reeds gebuk gaan onder ‘n wye verskeidenheid sosiale probleme, soos werkloosheid, misdaad, ens. Anti-dobbel stemme het argumenteer dat die Suid-Afrikaanse gemeenskap is nie genoegsaam ontwikkel om ‘n industrie te hanteer wat geld kanaliseer vanaf normale huishoudelike besteding na die vorme van dobbel wat gewettig is nie. Anti-dobbel stemme het verder genoem dat dobbel net ‘n verdere belasting is in ‘n gemeenskap wat reeds oorbelas is. Baie van hierdie argumente het gewig gedra en die wettiging van die dobbelindustrie was duidelik ‘n kwessie wat versigtig hanteer moes word.

Politici, die beskermhere van ‘n gesonde politieke bestel deur pro-aktiewe beleidstappe wat tot voordeel van ‘n land en sy mense behoort te wees, was in ‘n besondere politieke dilemma met die wettiging van die dobbelindustrie en moes die voordele van verdere belastinginkomste in ag neem saam met die sosiale nadele wat die industrie sou skep. Volgens die Konstitusie van Suid-Afrika is dobbel ‘n konkurente verantwoordelikheid en die onderskeie provinsies kon provinsiale dobbelbeleid ontwikkel volgens provinsiale vereistes. Alhoewel die nasionale wetgewing die oorhoofse raamwerk skep vir provinsiale wetgewing, het provinsies die geleentheid gehad om innoverend te wees met die ontwikkeling van provinsiale wetgewing.

Na die wettiging van die dobbelindustrie het provinsies vinnig opgetree om casinos te ontwikkel, hoofsaaklik om ‘n groter belastingbasis te ontwikkel deur die toepassing van wetgewing. Die meeste provinsies ondervind ‘n tekort aan inkomste, aangesien die inkomstetoedeling vanaf die nasionale regering nie genoegsaam is om aandag te gee aan ‘n lang lys van ontwikkelingsprioritiete nie. ‘n Weg moes gevind word om provinsiale inkomste aan te vul en dobbelbelasting was ‘n aantreklike opsie.

Die Wes-Kaap Provinsie het ‘n meer geduldige pad geloop in die promulgering van dobbelwetgewing. Daar was ‘n duidelike besef dat dobbel ‘n massiewe negatiewe sosiale impak in die Wes-Kaap sou teweeg bring en was daarvan oortuig dat ‘n weg gevind moes word om die negatiewe sosiale impak minder te maak.

Die tesis het nie die klem geplaas op die kwantifisering van die negatiewe impak (soos byvoorbeeld die gebrek aan produktiwiteit, verlies aan werkgeleenthede, bankrotskappe, huishoudlike geweld, egskeidings, ens) nie. Die doel was om te demonstreer dat die toekenning van ‘n casino dobbellisensie gebruik kan word om infrastruktuur te skep wat nie direk verwant is aan ‘n casino nie. Sodanige infrastruktuur is gewoonlik in aanvraag in stede en streke wat ontluik as toerismbestemmings, maar hierdie tipe toerisme-infrastruktuur sal nie deur die regering ontwikkel word nie weens ‘n tekort aan die nodige fondse, maar ook nie deur die privaatsektor nie weens die gebrek aan aantreklike winsmarges.

Die Wes-Kaap Provinsie het die vyf casinolisensies wat aan die provinsie toegedeel is in terme van die Nationale Dobbelwet gebruik om ‘n impak in die hele Provinsie te maak deur die Provinsie in vyf streke te verdeel met ‘n lisensie toegedeel aan elk van hierdie streke.

Kaapstad en die Wes-Kaap het sedert 1994 internasionale prominensie verkry as ‘n internasional toerismebestemming. Dit was egter gou duidelik dat die stad en die streek nie die verwagte stroom van toeriste sal kan hanteer met die gebrek aan hotelkamers en ander toerisme-infrastruktuur nie. Die toerismesektor sal ook in gebreke bly om te groei sonder ander fasilitiete soos ‘n internasionale konferensiesentrum. Die gebrek aan ‘n internasionale konferensiesentrum het gelei daartoe dat Kaapstad konferensies begin verloor het weens die gebrek aan voldoende fasiliteite. Die internasionale konferensie-industrie toon uitstekende geleenthede vir ekonomiese groei deur die konferensieganger besteding en die impak op die ekonomie van Kaapstad en die Wes-Kaap.

Die Wes-Kaap het dobbelkriteria ontwikkel wat dit duidelik gemaak het dat casino lisensie-aansoekers daartoe verplig was om toerisme-infrastruktuur by hulle aansoek in te sluit wat sou bydra tot die waardetoevoeging in die onderskeie streke. Dit is ook duidelik gemaak dat sodanige infrastruktuur nie noodwendig fisies aan ‘n casino gekoppel hoef te wees nie en kon ook weg van die casino perseel ontwikkel word. Die beleidskriteria het dit verder ook duidelik gemaak dat alleenstaande casinos nie oorweeg sou word nie.

Die ontwikkeling van ‘n internasionale konferensiesentrum het ‘n belangrike beleidsoorweging geword in die toekenning van ‘n casinolisensie in die Kaapse Metropool. Alhoewel casino maatskappye ‘n verskeidenheid infrastruktuurelemente in hul aansoeke ingesluit het (meesal projekte wat ‘n positiewe impak op toerisme sou teweeg bring) het die ontwikkeling van ‘n konferensiesentrum ‘n uiters belangrike

oorweging geword in die toekenning van ‘n casino lisensie en die lisensie vir die Kaapse Metropool is derhalwe toegeken aan die maatskappy wat die ontwikkeling van ‘n konferensiesentrum in die suksesvolle aansoek ingesluit het.

Alhoewel konferensiesentrums byna nooit winsgewend is nie, skep sodanige sentrums die moontlikheid van stedelike vernuwing en ‘n ekonomiese impak deur die besteding van konferensegangers op hotelle, voedsel, drank, vervoer en algemene toerismebesteding. Die direkte, indirekte en geleide ekonomies impak van hierdie besteding lei daartoe dat die negatiewe sosiale impak afgeskaal word en lei derhalwe daartoe dat die voordele van die wettiging van dobbel verder gevoer word deur projekte wat onwaarskynlik sou wees in die afwesigheid van die toekenning van ‘n casinolisensie.

Hierdie studie demonstreer die ekonomiese impak (direk, indirek en geleide) van die Kaapse Internasionale Konferensiesentrum. Die studie demonstreer verder die impak van die studie op die bevordering van toerisme , insluitende konferensiegangers wat na Kaapstad terugkeer vir vakansiedoeleindes. Hierdie impak kulmineer in die gevolgtrekking dat die toekenning van ‘n casinolisensie behoort nie net te lei tot die ontwikkeling van ‘n alleenstaande casino nie, maar ook die ontwikkeling van toerismeinfrastruktuur wat daartoe lei dat die negatiewe sosiale impak afgeskaal word.

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CHAPTER 1

INTRODUCTION

1.1 INITIATING A NEW INDUSTRY

The legalisation of gambling in 1995 in South Africa initiated an industry of which the economic impact is often ignored or simply misunderstood. The industry operates in a dynamic environment, which, if steered and regulated on a first-world basis, could create a significant economic sector with a significant positive economic impact. On the other hand, a badly regulated industry could result in a significant negative social impact. The right balance lies in an efficient gambling policy.

Designing gambling policy is the key factor in the creation of a gambling sector that would generate a positive economic impact. Cabot (1996:17) discusses different approaches to gambling by different governments and mentions that "some governments hope to benefit from the industry through imposing taxes or using it for economic development. These governments strictly regulate the industry effectively by protecting and maximising the benefits". It is the key point of departure. Once gambling policy is set and implemented, it is difficult to amend the fundamental principles of such policy. Many jurisdictions worldwide have not paid the required attention to gambling policy, which resulted in devastating effects. As jurisdictions worldwide have divergent characteristics (such as in terms of economic structure and culture), different jurisdictions require unique policies to find the right economic balance for the industry and the community in a specific region. There is a definite downside to gambling, which could create a negative economic impact as was seen in many jurisdictions worldwide.

The decision to legalise casino gambling was an outflow of a bold reality. Legalisation was a logical step to regulate an activity, which was already taking

place illegally on a large scale, and still is. The only legal casinos in the pre-1994 era were those of Sun International South Africa, that for historic and political reasons, held all 17 legal casinos licences, which the company had established in the former homelands and which had now been re-incorporated in the post 1994 South Africa (National Gambling Act (Act No 33 of 1996) (Annexure: 6). The legalisation of gambling also opened many other forms of gambling. Other than horse racing that has been legalized in South Africa for many years, the opening of the larger industry in 1995 allowed for casinos, limited pay-out machines (LPM's), bingo, a national lottery and possibly internet gambling. The challenge within this potential mix is to find the biggest possible benefit for society against the backdrop of realising that gambling does create a negative impact. The challenge lies in utilising a casino licence to ensure that the economic benefit outweighs the social cost. The more a casino development is used to create municipal infrastructure at no cost to government, such as roads, in decaying urban areas, the more the chances are that the negative social impact could be eroded to the net benefit of society. Cabot (1996:59) states that "casino developments have become politically more palatable when it creates increasing investment, creating jobs and regional development or redevelopment.

A very significant development within the decision of legalising gambling within the constitutional parameters was the question of what should be the relevant powers and responsibilities of provincial governments *vis-a-vis* national government in the new Constitution. Gambling is a concurrent competence in terms of the Constitution (The Constitution,1996:34). That means that within the broad parameters of national legislation provincial governments have the competence to pass their own gambling legislation and adopt its own unique gambling policy or amendments thereto.

Collins (1996:10) states that policy makers, economists and regulatory bodies have similar views of what the desired outcome should be, but very different views of what the outcome will be. The development of casinos will have a significant effect on the Western Cape economy, not only in terms of the negative

social impact of gambling, but also in terms of the creation of key tourism infrastructure, different patterns in retail spending, employment creation, possible displacement and the expansion of the entertainment sector in the Western Cape. From the outset it was a challenge to ensure that the negative social impact of gambling was offset by developments other than employment, Gross Domestic Product ("GDP") and tax generation.

The ultimate effect of gambling, not only in respect of the economic benefit, but also the social cost, will only be evident in the future.

During the casino bid application process a very optimistic financial scenario and economic impact were projected by casino bid applicants. Profit projections were utilized to calculate the economic impact of each bid. Gambling boards were overly impressed with inflated profit margins, employment opportunities created and the impact on the GDP and tax generation levels. During the first year of the operation of three licenced casinos it became clear that casino projections in financial economic impact terms would not be realized. The Gross Gaming Revenue **("GGR")** of casinos, a gambling term indicating gambling turnover (i.e. before deductions of overhead expenses) materialised was far below projections, not only in the Western Cape, but also in other parts of South Africa. A number of casino operators have already approached provincial gambling boards to consider a downscaling of operations. Such downscaling efforts will always result in lower employment numbers. The creation of employment opportunities was one of the key motivations in the legalisations of casinos.

1.2 HOW IT STARTED

Although the complete Wiehahn Report on Gambling in South Africa (1995) suggested a gambling policy for South Africa little academic research has been done since the release of this report. The National Gambling Act (Act No 33 of 1996) **("National Gambling Act")** was enacted in 1996 and provincial gambling laws followed in later years.

Provincial gambling laws were drafted within the broad principles of the national legislation, but these laws differ markedly in their application. These laws could be adapted to the specific provincial economies and cultures. In terms of gambling policy provincial regulatory authorities had a mandate in what the dispersion of gambling licences across the province should look like. Such a dispersion of gambling licences could include a cluster of casinos in a city (along the lines of the Las Vegas strip) or could be evenly dispersed across the geography of a particular province or region.

Politicians were keen to see gambling become a practical reality. This was mainly due to the fact that gambling taxes are part of the provincial tax revenue whereas other taxes, such as company tax, are part of the national revenue structure. Now that 35 out of possible 40 casinos (Department of Trade and Industry record at the end of 2003) are operational politicians have suddenly realise that there is an underestimated downside to gambling. More and more politicians, economists and opinion makers are voicing their concern that the social cost of gambling could exceed the economic benefit. Recent research in Australia (Australian Productivity Commission,1996:51) has shown that this is the case in some modes of gambling, particularly in respect of Limited Payout Machines **("LPM's")**, which, in terms of national legislation, will be installed in bars, clubs, etc.

The key question facing central and provincial governments was how to get the most out of the new gambling dispensation. The challenge was to create a gambling industry that would not only create a wider economic base in national terms (i.e. in terms of company tax and value added tax), provincial terms (i.e. in terms of gambling tax) and local terms (i.e. in terms of local levies), but to achieve more than that. The creation of tourism infrastructure is one of the potential benefits of gambling policy. In the Western Cape Gambling and Racing Board Policy Determinations (1997:4) the Board succeeded in ensuring that tourism infrastructure will be created that would have been unlikely in the absence of a casino.

1.3 THE CHALLENGE

It is common cause that the arrival of democracy in South Africa has not brought the desired economic growth that is a key element in the successful future development of South Africa. Foreign direct investment has not closely reached the levels that are required in the future of South Africa, particularly if such investment must finance an economic growth rate that is required to create the desired employment opportunities. The legalisation of gambling has been received with mixed feelings. The general perception was that casino developments will not add to the economy, but will be a mere circulation of present economic activity. It was felt that gambling would not add to economic growth, but simply displace one form of expenditure, as on retail goods, to expenditure on legalized forms of gambling.

Closer scrutiny reveals a somewhat different picture. The Western Cape has seized the opportunity to create the terms of reference for applications through a Request for Proposal **("RFP")** in such a way that casino developments can most definitely add to the economy. The challenge was not to licence casino developments at random, but to design a policy that could create a unique industry that could add much more to the Western Cape economy than merely slot machines and gambling tables or a so-called "stand-alone" casino. It is widely accepted that the Western Cape had not received the high number of applications compared to other provinces. The criteria and the cost to submit a casino bid application was simply too high to prompt the every day national or international casino operator to become involved. The result was the licensing of companies with strong financial backing, solid operational experience and the ability to deliver projects of international standing. Applicants knew that they had to come with special bids that hold special and unique development potential for the Western Cape economy. These elements were not traditional elements in a casino development, but served as means to create economic development and offset the negative social impact of gambling. In that sense it was considered as a "gift" to the Western Cape. It was realised that bid companies that did not show significant financial strength were unlikely to manage and finance the inclusion of

these elements. In short, it was a policy decision in the Western Cape to make a casino licence in the Western Cape an expensive commodity. Applicant companies realized that to obtain a licence in the Western Cape significant ancillary infrastructure had to be included. These facilities could also be “off-site” having little in common with the casino. It was also a policy decision not to permit “stand alone casinos” as they would contribute very little in the general upliftment of an area through infrastructure and municipal services. Eadington (1991:4) mentions that government needs to realise that the legalisation of gambling “should not be seen as a vice, but as an opportunity”

The effective economic and social impact on the economy of the Western Cape will only be seen in five years time. This thesis endeavors to provide a realistic analysis of the impact of one of the direct outflows of the Cape Metropole casino operator licence, namely the Cape Town International Convention Centre **(“CTICC”).**

1.4 OBJECTIVES OF THE THESIS

Casino gambling has become one of the growth industries in the world and South Africa and the Western Cape are certainly no exception. Casinos have sprung up everywhere; even the former communist/socialist Republic of China has announced plans for a luxury casino. Except Norway and Sweden, casinos are open in every European country, in every state in Australia and in most Central and South American states and countries. The road to legalisation in different countries presented significant and unpredictable barriers; it has proven to be a difficult task and the outcome of legalised gambling has not always been the desired one. Without any empirical evidence, there seems to be a significant strong correlation between the lack of a strong regulatory framework and the potential negative economic impact of gambling (Cabot,1996:15).

The objective of this thesis is to determine whether the strong and innovative regulatory framework put in place in the Western Cape will have the required positive economic impact on the Western Cape economy in respect of the

creation of tourism infrastructure and what this impact is likely to be. Within the next five years casino operations will most definitely leave a mark on the Western Cape's economic horizon. The casino industry is not a normal industry and the outcome of casino developments is far from a forgone conclusion. The core objective of this thesis is to analyse the potential outcome of this industry on the creation of tourism infrastructure in the Western Cape economy and how the economic benefit originating from such infrastructure and related investment erode the accepted negative social impact.

1.5 APPROACH

The thesis will address a number of key issues.

The case for the regulation of gambling and the determination of appropriate policy will receive attention. Reference will be made to the different forms of gambling policy that developed worldwide and the merits of each of these policies. These policies played a significant role in the determination of the Western Cape gambling policy.

Emphasis will be placed on the unique approach followed in the Western Cape, i.e. to develop a policy whereby the negative social impact of gambling is not simply argued away, but accepted as a given. Such negative social impact will not only be offset through the generation of employment opportunities and tax generation, but also through the creation of tourism infrastructure.

Another important part of the thesis is the theoretical framework for an economic impact analysis of gambling and an analysis of the economic impact of the CTICC. Due to the strict requirements of the RFP the creation of tourism infrastructure was an important element of casino bid proposals. The contribution to the development of the CTICC made out a prominent part of the Cape Metropole bid and it certainly played a strong role in the allocation of the licence to Grandwest (Pty) Ltd **("Grandwest").**

Attention will also be given to the unique economics of gambling, the displacement effect and how it compares with other industries.

Addressing the above-mentioned issues highlights the case for gambling regulation and the determination of appropriate gambling policy. The application of a policy to utilize gambling in the creation of tourism infrastructure will ensure that the negative social impact of gambling is overcome through the economic impact of tourism infrastructure, in this case the CTICC. Analysing the impact of the CTICC will show that the construction of the CTICC and the economic impact thereof played a huge role in offsetting the negative social impact of gambling.

The economic impact of the casino, the Roggebaai Canal and other developments, such as the hotel development attached to the CTICC, will not be analysed as the positive economic impact of the Roggebaai Canal and the casino *per se* is not as significant in the creation of tourism infrastructure as the development of the CTICC is. The hotel development has no connection to the casino licence and is a separate capital injection by an international hotel operator, Arabella Sheraton.

The emphasis will therefore be on the utilization of the Cape Metropole casino licence in the creation of the CTICC, a development
desperately needed in the Cape Metropole, and the subsequent economic impact of the latter.

CHAPTER 2

THE CASE FOR REGULATION AND THE DETERMINATION OF POLICY

2.1 BACKGROUND AND RECENT HISTORY

The new political dispensation in South Africa has had an important effect on the legalisation of gambling in the country. Before the appointment of the Howard Commission in 1993 the emphasis was largely on an industry that was completely outlawed, but with the new approach after 1994 through the promulgation of the National Gambling Act the emphasis has largely shifted from an environment that outlawed gambling of almost any kind in South Africa (except horseracing) to an approach that legalised all varieties of gambling, subject to strict control in a provincial dispensation (National Gambling Act (Act No 33 of 1996): 15). These varieties included the already legalised horseracing industry, casino developments, limited payout machines, bingo and lotteries.

The general motivation for legalising gambling is that it is often more difficult to control illegal gambling (and the vices that go along with it) than to control and monitor legal gambling. It is also a form of additional tax generation, particularly in jurisdictions where the normal commercial generated tax base is inadequate. It also provides the opportunity for employment generation.

From 1976 onwards, with the institution of the homelands within South Africa's borders, the erstwhile independent TBVC states introduced their own gambling legislation, a process driven largely by Sun International (Pty) Ltd. As a result, a total of 18 casino licences and a number of lottery licences were issued between 1976 and the beginning of the nineties in those areas. With the new Constitution of the Republic of South Africa, 1993 (Act 200 of 1993) and following the re-incorporation of the TBVC states into South Africa, it was ruled that existing

licence holders in those territories might, in terms of Section 229 of the Constitution, conduct legal gambling. As provinces licence casinos and Sun International is successful in its application for new licences, their present licences are being downscaled in the new dispensation to prevent an undue monopoly.

The new Constitution recognizes the competency of the provincial governments to legislate on matters falling within the functional areas of casinos, racing, gambling and wagering. The National Government promulgated the National Gambling Act to ensure this matter is regulated and coordinated by uniform laws and standards that apply throughout South Africa. Legislation aims to ensure that countrywide uniformity is maintained. The intention of the National Gambling Act is to provide a broad legal framework in which provincial boards can enact provincial legislation around provincial gambling objectives.

The Western Cape Gambling and Racing Board was established in March 1997 in terms of the Western Cape Gambling and Racing Law (Law 4 of 1996) **("the Law")**, as amended. The Law stipulates, *inter alia,* the functions of the Board, the licencing of gambling and the conditions pertaining to such licences. The five licences allocated to the Western Cape in terms of the National Gambling Act were evenly distributed throughout the province, i.e. a licence for each of the five regions, namely the Cape Metropole, Overberg, West Coast, Southern Cape and Breede River.

In December 1999 the Board issued its first licence, namely the licence in the Cape Metropole to Sun International (Pty) Ltd. A second licence was awarded in April 2000 to Caledon Casino Bid Company (Pty) Ltd in the Overberg region, a third licence in September 2000 to the Mykonos West Coast (Pty) Ltd in Langebaan, West Coast and a fourth licence to Akani (Pty) Ltd in Mossel Bay.

The unique approach followed by the Western Cape Gambling and Racing Board in the Cape Metropole in creating criteria (which strongly related to the creation of tourism infrastructure) within which the applications had to be submitted presents

an excellent case study for evaluating the possible economic impact of this industry on the provincial economy of the Western Cape, particularly with respect to the creation of tourism related infrastructure.

The policy was driven by a question also raised by Cabot: (1996:53) and that is a choice "between a solution that minimises the negative impact of gambling versus a solution that will increase the economic benefits and therefore create a net economic benefit".

The Western Cape realised that the "price" for a casino licence should be high, particularly in the creation of infrastructure that the Western Cape Provincial Government cannot afford and the private sector often finds financially unattractive.

Since the appointment of the Howard Commission in 1993 and the Wiehahn Report in 1995 several forms of gambling have been legalised. These include casino developments, limited gambling machines and bingo (which in terms of the Constitution is a concurrent provincial/national government competence), and a national lottery, which is a national competence. Horse racing has been a legal form of gambling since the sixties. The scope of this thesis will be limited to casino developments only as they have the most significant impact on an economy.

2.2 THE LEGAL HISTORY

2.2.1 The Howard Commission

In 1993 the Howard Commission was appointed by the then State President with *inter alia* the following terms of reference (Howard Commission,1993:22).:

"To inquire into and report on:

- The desirability of legalising in certain areas and/or regions, gambling games that are currently prohibited by law on the basis of the following criteria:

    - The social and ethical values in the country in general and, in particular, those that may be relevant in any such region or area;
    - The impact on the economy of the country in general and the significance of such an exception for the socio-economic development of such region and/or area and/or region and/or area adjacent to such region and/or area.

- The question whether a part of the proceeds of such lotteries, sports pools, other forms of betting games and scratch cards systems should, through taxation or otherwise, be used for financing any specific social State expenditure.

- The impact on the economy of the country in general and the significance of such exception for the socio-economic development of such region and/or area and/or region and/or area adjacent to such region and/or area" (Howard Commission Report,1993:2).

The games referred to in the definition above are those normally played in a casino, which may be described as a public building or room in which gaming takes place. "Gaming means the playing of a game for stakes, and by virtue of the definition it includes the playing of a slot machine for a monetary prize" (Howard Commission Report,1993:6).

The legalisation of casinos occurred due to a number of reasons, *inter alia*:

- Millions were spent by South Africans on casinos in the former TBVC states (Howard Commission,1993:15). It was a popular way of entertainment, despite the distance that most South Africans had to drive to reach the respective casinos in the former homelands. Before the institution of a democratic

government in 1994 and the subsequent collapse of the former homelands an average of 9 million South Africans patronised the former homeland casinos. If they were spending an average of R100 per visit the amount spent by South Africans was a staggering approximate R900 million per annum.

- Illegal casinos became a regular feature of the South African entertainment life. The Howard Commission established that in 1993 illegal casinos (established in cafes, bars, dwellings, hotels and converted garages) operated approximately 630 gaming tables and 9100 slot machines in 2000 casinos. The Howard Commission acknowledged that there was an enormous demand for casino gambling in South Africa.

2.2.2 THE WIEHAHN REPORT

It was left to the Wiehahn Commission, which was appointed in 1995, after the establishment of the Lotteries and Gambling Board in 1994, to investigate a practical gambling dispensation for South Africa. In the Report (1996:10), it was *inter alia* recommended that:

- "The provisions of the Gambling Act, 1965 (Act 51 of 1965) be applied with regard to illegal casinos, which would result in the closing of all illegal casinos in the country;

- Each province will establish a properly constituted licensing and control authority for the purpose of issuing licences for casino developments and for ensuring the proper control and regulation thereof; and

- Licences to endure for a limited period, but renewable on application".

Five general considerations featured significantly in the legalisation of gambling in South Africa:

- First, as with the consumption of alcohol and tobacco, and indeed all other industries which are engaged in the provision of goods and services deemed by many to be immoral or dangerous or both, protection needs to be afforded, which an unfettered free market would not be able to provide;

- Secondly, the legalisation of casino gambling was thought to furnish provinces with a rare and lucrative instrument for raising revenue independently of central government and municipal authorities;

- Thirdly, largely because of the glamour and success of Sun City, it was widely believed that casinos could substantially enhance the growth of international and domestic tourism industries;

- Fourthly, there was the historical association of casino gambling in the United States with organised crime, and in particular drug-dealing, prostitution, money-laundering etc. and the concomitant fear that in South Africa an unregulated gambling industry could further exacerbate similar problems of gangsterism and negative social behaviour; and

- Finally, as with alcohol and tobacco, it was recognised that the social cost of excessive gambling could be at least mitigated by the provision of services paid for out of taxes on gamblers.

The final recommendations of the Wiehahn Commission (1996:31), which were accepted by the then Government included *inter alia* the following:

- “To legalise a regulated rather than a free market gaming industry;

- To limit the number of casino gaming licences nationally to forty and to limit the number of casino operations in which any one company could participate to two per province; and

- To make the regulation of the industry and the award of casino licences the prerogative of provincial government who would also set levies on gross turnover which would accrue to their exchequers in the form of bidding fees, guarantees, up-front payments in cash and kind and other annual fees".

The recommendation of the Wiehahn Report had far-reaching effects in the legalisation of gambling in South Africa. It meant that other than horse racing a number of gambling forms, *inter alia* casinos, would be instituted in South Africa.

The National Gambling Act was enacted on the basis of the Constitution, which provided for the legalisation of gambling as a concurrent competence. The National Gambling Act provides for a broad legal framework for the respective provinces to enact provincial gambling legislation.

In practice it implied that provinces had a fair degree in structuring gambling policy to suit a specific province's needs.

The National Gambling Act only provided broad parameters and provinces, through innovative legal expertise, could structure gambling policy in such a way that it could suit a province's needs.

From the start it was clear that the generation of gambling tax renenue (a provincial revenue) was the key objective of the respective provincial legislation. It was one of the few significant revenue streams that provinces could use to increase a provincial revenue base. Since the inception of the provincial federal system in 1994 the "richer" provinces were of the view that the fiscal revenue received from the Treasury was less than their contribution to the national tax base. "Poorer" provinces, particularly newly established provinces, such the Northern Cape and Northern Province, were of the opinion that "richer" provinces should be obliged to subsidise "poorer" provinces. Until the establishment of provincial gambling boards provinces had little means of generating provincial tax revenue to supplement the contribution from the national government. Licensing casinos provided an attractive means to do so.

Provincial gambling policy became the basis of provincial gambling legislatures. Gambling policy is motivated by a strong case for regulation. Cabot (1996:12) states that “the public policy underlying law can be based on many considerations, including moral, political, health, safety, social and economic reasons”. The case for regulation lies in a combination of these.

2.3 THE CASE FOR REGULATION

The case for the regulation of the gambling industry is a strong one. Nowhere in the world has illegal gambling realized any positive impact on the economy. Illegal gambling is normally associated with a number of social problems such as prostitution, drug trafficking, money laundering (Cabot:1996:25). Other than these social problems illegal gambling makes no significant contribution to the tax base of a region.

The case for the regulation of gambling is based on the desire to stamp out illegal gambling and all the negativities associated with it. It
could also be argued that the legalisation of gambling could lead to a number of social problems, such as problem gambling which in turn lead to social problems, such as lack of productivity, violence, bankruptcy, etc. Through regulation the unnecessary proliferation of gambling can be controlled and companies subject to the payment of taxes and the negative impact could be controlled. Through regulation gambling policy could also be designed in such a way that the “price” for a gambling licence could be increased to ensure a positive contribution to society, such as infrastructure.

The case for regulation is therefore not only motivated by the need to control the social cost of gambling, but also to maximise the economic spin-off in respect of gambling.

2.4 NEGATIVE EXTERNALITIES - THE SOCIAL COST OF GAMBLING

Other than a range of economic benefits that are generated through the creation of legal gambling, such as employment and tax generation as well as the creation of tourism infrastructure, the negative social impact of gambling is often ignored. Black, Calitz and Steenekamp (1999:25) refer to negative externalities, i.e. when the actions of an individual or entity inflict a cost on other parties, which they are not compensated for. Black, Calitz and Steenekamp (1999:25) further mention that negative externalities can originate either on the supply or demand side of the market.

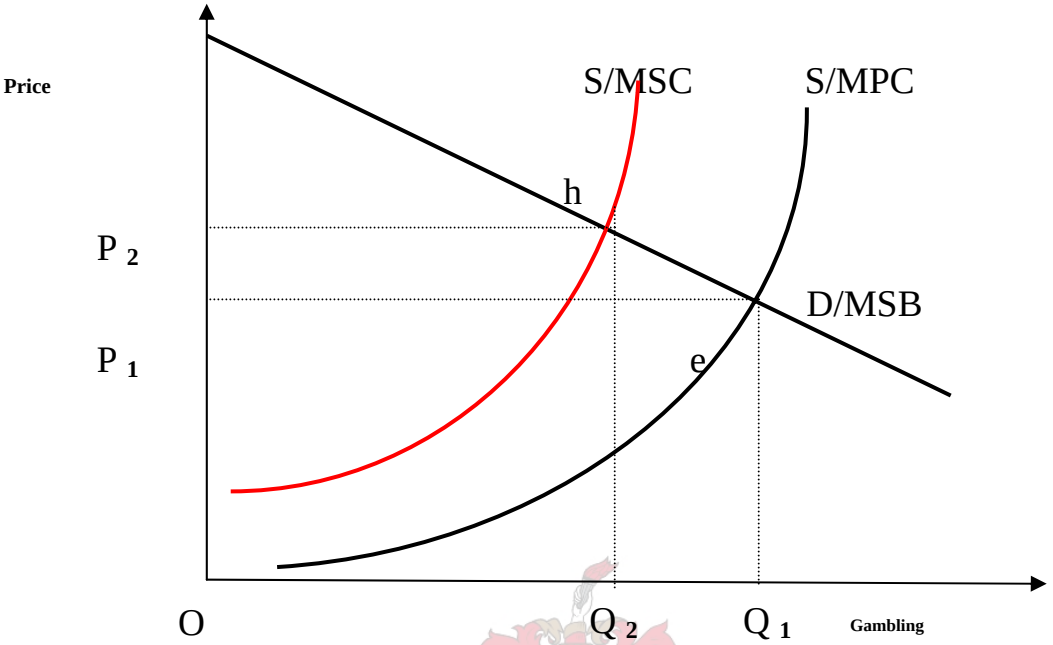
Supply Side

Gambling is a negative externality on the supply side as the activity of the casino operator through the construction of a casino cause an external negative impact in which case the marginal external cost (MEC)>0 and marginal social cost (MSC)>marginal private cost.

The construction of a casino in a particular area (the worldwide trend is to construct casinos close to residential areas - Sun City is an exception as it was built on the former homeland concept) creates a negative externality and can be demonstrated in **Figure 2.1.**

The diagram shows the normal private (= social) demand curve (D=MSB) and the private supply or marginal cost curve S=MPC for the benefit created by a casino through say an employment opportunity or entertainment. These curves represent the consumers benefit from using a casino as entertainment or getting a job and the cost of the casino operator in providing this facility. In a normal market situation equilibrium would occur at point **e.**

Figure 2.1: Supply Side: External Cost of Gambling (negative social impact)



From the perspective of the community the cost incurred by the casino operator does not reflect the full cost of providing the casino to a community. The external cost through the negative impact of gambling, i.e. lack of productivity, problem gambling, domestic violence, etc is not reflected, but must be part of the social cost. This cost is indicated by the social supply curve (MSC) showing that the negative externality raises the cost social cost of providing the casino above the private cost of the supplier. The "social" equilibrium is therefore at **h** and not at **e** (i.e. at the point where social cost is equals social demand).

A casino therefore generates a social benefit in the form of entertainment, job creation and tax generation that will be applied by the government for social utilities. This benefit could be offset by the negative social impact of gambling. In some cases this negative social impact of gambling could be bigger than the social benefit, particularly where a stand-alone casino is built whereby little or no other benefits are created. If a regulator decides to make it a condition for a casino operator licence that other benefits are created, such as tourism

infrastructure, then it is more likely that the social benefit would be bigger than the negative social impact or cost.

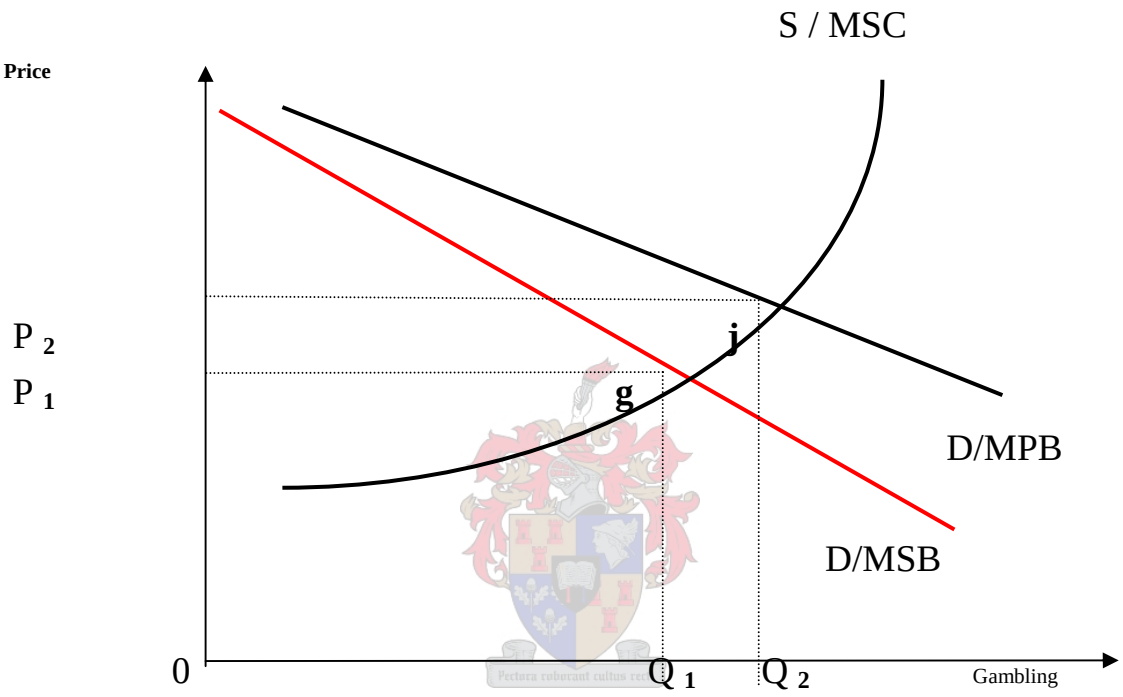
Demand Side

Negative externalities can also originate on the demand side of the gambling market. Pathological gamblers divert money away from the rest of the household budget, a process that undermines the well-being of the family, i.e. money that would have been spent on schooling, household food, clothing, etc is directed towards gambling and the potential losses deny the family of educative value and the frustration due to gambling losses could lead to domestic violence, bankruptcy, loss of productivity and possible unemployment. An addictive gambler could also turn to crime (that may lead to possible imprisonment) to fulfill his gambling needs and in the process the family members compromise on a further monetary benefit.

Crime is a significant element in the negative externalities associated with gambling, Gambling could contribute to crime in a number of ways such as gamblers stealing to support dysfunctional gambling habits, and as a cash industry gambling can attract criminals and crime activity could increase. The effect of gambling on the standard of living may worsen if the gambling activity is regressive, meaning that the rate of participation (as a percentage of income) declines as persons earn higher incomes. Research by the Australian Productivity Commission indicated that gambling (with the negative social impact) is more evident in poorer communities compared to communities with a high income.

Figure 2.2 shows the negative externality on the demand side.

Figure 2.2: Demand Side: Negative Externality (negative impact of gambling)



The optimal solution is at point **g.** The demand for gambling creates the flow of household money (i.e. food, clothing, schooling, etc) to gambling, which creates the movement of the demand curve to the right for market equilibrium to be at point **j**.

The policy developed for gambling in a particular region will determine whether there will be a negative social cost or an economic benefit. Stand-alone casinos are unlikely to create an economic benefit whereas if it is a condition of a casino operator licence to develop other facilities, such as tourism infrastructure, the positive benefit through the creation of employment opportunities and tax generation will be reinforced.

One of the ways to resolve the possibility of negative externalities in the market place is through regulation. Regulation is important in an industry such as gambling as the authorities in a particular jurisdiction must determine how to structure the casino industry to ensure that the social cost is off-set through the creation of positive externalities, such as tourism infrastructure.

2.5 THE CASE FOR REGULATION AND THE IDEAL REGULATORY MODEL

Although a diverse range of models has developed over the years, the case for some kind of regulation has become stronger and stronger. The form of regulation will depend on the objectives of a specific jurisdiction and the particular culture of that jurisdiction.

Many jurisdictions in developing countries have embarked on the road of casino developments for mainly two reasons, i.e. to generate a stronger tax base and to discourage the proliferation of illegal casinos. Research by the Australian Productivity Commission (1996:56) found that illegal gambling is likely to lead to a negative social impact as such gambling does not contribute to the tax revenue base and is often associated with drug trafficking, money laundering and prostitution.

The legalisation of gambling does not only provide for the opportunity to get rid of any form of illegal gambling, but also provides for the opportunity to create development, particularly infrastructure development. The challenge is not to create “stand alone” casinos where the economic impact is limited, but to utilise a casino operator licence to secure tourism infrastructure development of which the economic benefit will offset any other costs, such as the negative impact of gambling and the cost of regulation.

It is also important for a government to apply a model, which will create a positive trade-off between, on the one hand, the positive economic benefits arising from

gambling and, on the other hand, the social cost and the high cost of regulation attached thereto. Public policy in the creation of a highly regulated gambling environment will have as its basis the economic regulation of the industry without any elements of political regulation. It is important that public policy is designed in such a way that it does not create market failure, in particularly in the creation of a natural monopoly. A natural monopoly occurs when the average cost to a single company continues declining as production increases, such that a single company can most efficiently produce the entire demand for the product. Within a highly regulated environment, particularly in the availability and allocation of limited licences, it is unlikely that a highly regulated gambling environment will result in a natural economic monopoly (Kantor:2000:12).

In a highly regulated gambling environment the availability of information in the casino industry is uneven. One way to solve this problem is that government regulation can acquire the casino operator to provide better information or to set the minimum standards. In a gambler protection model the appliances used in the casino must adhere to the minimum standards, set out in the relevant gambling legislation, which could protect uninformed participants against unexpected outcomes, which could result from a situation of imperfect information (Cabot,1996:75).

Under a government protection model the objective would be to maximise the potential benefits out of the casino operations such as tax revenue, jobs and the creation of tourism related infrastructure (Cabot,1996:78). The government protection model will ensure that the negative externalities originating from of gambling will be explained and highlighted to the gambling community. In this model the negative aspects of gambling, such as the potential of the involvement of organised crime, money laundering and the utilisation of casino profits to fund criminal activities, will be highlighted. The casino operator will also be required to meet certain criteria, such as sound operating experience (such as the ability to comply with safety standards), financial strength of shareholders, etc, before obtaining a licence.

Effective and strictly regulated gambling environments have as an objective the elimination of most of the negative externalities attached to gambling. One way of dealing with this policy is to not prohibit the gambling activity, but to shift the economic burden from third parties to the industry that causes the problem. Such a shift of the burden could be and normally is in the format of a cost or levy placed on the industry. If negative externalities are present and they are not internalised by the casino (not part of their cost), the industry will over-supply their specific product (casino games). If the Government imposes taxes on casinos to reflect these costs (due to externalities), market equilibrium would be a lower quantity (less gambling) at a higher price. The price in the gambling environment could have significant consequences for the consumer. The price that the gambler pays could have a direct and indirect economic consequence. A direct price impact could be achieved by setting minimum paybacks to the gambler as in the case in the government protection model. An indirect price impact could be created by barriers to entry, imposing regulatory costs, inhibiting or preventing innovation and change, or prohibiting or restricting advertising or marketing (Kantor: 2000:21).

In the gambler protection model the only serious and natural barrier to entry could be an extremely amount of capital required for the building of the project. Other than that gambling is not normally associated with any natural barriers to entry. Other than the capital requirements, it is not difficult to set up a gambling enterprise. It is possible that certain cultural restrictions can pose a barrier to entry. Before 1960 gambling was a small and almost prohibited industry worldwide due to the religious stigma that was attached to this type of business interest. Over the past four decades the religious taboos attached to gambling have been removed in most parts of the world except in typical Muslim environments.

One way of ensuring that only the best operators and investors enter the market is for the government in the government protection model to require substantial capital investments, including general infrastructure and tourism infrastructure, to qualify for a licence. (Kantor:2000:30). The invitation directed by the Western

Cape Gambling and Racing Board to the industry (Request for Proposal **("RFP"):**1997:11) clearly expressed the desire to create ancillary facilities as well as other amenities before a licence could be acquired. It therefore became extremely expensive for any average casino operator to get involved.

With a strictly regulated gambling environment certain negative economic market inefficiencies could be created and it will be the responsibility of the jurisdiction's government to decrease these inefficiencies as much as possible. One of the bigger inefficiencies that could be created is the redistribution of wealth from the gamblers to other groups such as the casino operator. The best balance that could be achieved will be that the casino industry can earn positive economic profits by keeping competition out, but it could also be the government that obtains revenues through taxing the casino in an amount equal to the inefficiencies.

The demand for casinos in a country should depend on the respective incomes of potential gamblers, i.e. the higher the income the more spend on gambling entertainment, the proximity of the casino to the potential customers, and the entertainment value they get from casinos. The entertainment value in respect of a casino is dependent on factors such as the win ratios offered by the operator as well as the quality of the casino, including the physical amenities such as restaurants and bars, the cost of the food and the theme of the casino. Finding the right entertainment mix will certainly determine the success of the economics of the casino.

Proximity is an important factor in this respect. Certain resort casinos in the old independent homelands of South Africa achieved a high degree of success (such as Sun City), although it was not close to the potential gambling market. Casinos, which are far from the potential gamblers, can be categorised as "resort" casinos, whereas the casinos closer to the market can be categorised as "convenience" casinos (Cabot,1996:56). It is unlikely that these resort casinos, often much smaller in size, will compete with the more urban/convenience casinos. Forcing casinos to more distant resort locations reduces the size of the

gambling market. Casinos that are of equal distance away from a potential gambling market or more or less conveniently located near freeways will be in direct competition with each other. Competition between similar casinos will be based on better amenities, service and a more attractive entertainment mix. The Las Vegas Strip, where a number of casinos is clustered in close proximity to each other in an open competitive environment is a point in case.

The overlay between the economics of gambling and the politics of gambling could be quite strong, particularly in emerging and developing economies. Casino bid applicants normally enter an emerging jurisdiction with promises of high capital expenditures with an attractive multiplier effect on tourism, job generation, GDP and other tourism infrastructure amenities, which will be difficult for the private sector to provide (due to low profit margins) or the government due to the lack of capital. In an emerging economy where disposable incomes are generally low, it could lead to a decrease in expenditure and job creation. Rational people normally gamble according to a certain percentage of their disposable income and would do so with the objective of entertainment. This implies that the money that would have been spent on other forms of retail will not be done so anymore. It could lead to a decrease in the success of other forms of entertainment and to an ultimate negative social impact on an economy.

In an emerging economy where economic growth is very much based on the savings habit of its citizens, this could have disastrous consequences. If there is not a net increase in income it could lead to fewer jobs and expenditure on the diverse range of retail possibilities.

2.6 THE DISPLACEMENT EFFECT

The reality is that the displacement effect will be impossible to avoid in the establishment of casinos. This displacement effect could take different forms:

- It will displace other forms of consumer expenditure whereby a process is initiated that will lead to the redistribution of consumer expenditure;

- Some areas could win in the allocation of a casino licence to the detriment of other areas that would lose whereby the direction of economic development will be diverted form one area to another.

When people choose to gamble they are making choices within a finite amount of disposable income. If people do choose to gamble with their money then they choose not to spend it on other things. What are these things? It could be that they are other items of leisure expenditure. When people go to a casino for an evening of fun they choose not spend money on other forms of entertainment, or they may even choose to save less. This means that any jobs created due the construction of a casino may be offset, to a considerable extent, by a loss of jobs in other sectors. In the absence of any net increase in income, the establishment of an urban casino resulting in more jobs and expenditure at the casino will result in fewer jobs and less expenditure in other sectors (Collins:1996:9).

There are two circumstances when a casino will not displace other forms of economic activity. The first is when there is a general increase in income. The second is when the operation of the casino itself leads to an increase in income. Such increases in income are necessary, because consumption expenditure in general and expenditure on leisure activity are largely dependent on income. There are two ways in which casino gambling may raise employment and incomes in a region, i.e.:

- By attracting an increase in tourism and expenditure by tourists from outside the region or retaining tourism spend by inhabitants within the region; and
- By facilitating an increase in capital investment in the region financed from savings elsewhere and which will not displace other investments.

Casinos, particularly urban casinos, are unlikely to bring about a large influx of international tourists. Only in the case of a resort casino, such as Sun City, where the location and resort facilities attract tourists, this can be brought about.

Casino building operations will create additional jobs, incomes and expenditures, providing the building and construction industry has excess capacity. As the building of casinos is very unlikely to displace other forms of building activity, and additional labour may well be readily available to the construction companies, these increases will be over and above current levels of activity. The former Center for Economic Advisory Services indicated that the building industry has construction income multipliers of between 1,5 and 1,7 and employment multipliers of approximately 30,2 (i.e. for every R1 million of direct expenditure 30,2 employment opportunities are supported. In construction there will therefore be a significant generation of indirect jobs and expenditure.

The displacement effect could be decreased when casino operators are using profits from their other operations to establish capital expenditure projects, which will not replace or displace any other similar projects in a region. The construction of tourism infrastructure, such as a convention centre, is a case in point. In an effort to secure a casino licence the casino operator brings in capital from outside the region to construct a convention centre and therefore ensures that the displacement effect of developing a casino is decreased.

Another mechanism to decrease the impact of displacement is to spread the effect of the displacement as widely as possible. This could be done by ensuring that a casino draws form as wide an area as possible and that a number of licences are not allocated to a small region, which will draw from other regions and displace development in those regions. This point led to the division of the Western Cape into five regions with a casino licence allocated to each of these regions.

2.7 THE INTERNATIONAL EXPERIENCE

The South African and Western Cape casino models show a strong resemblance with the models developed in the United States of America and Australia since the 1950's. It will prudent to look at a number of characteristics of the gambling environment in the two countries.

- **United States of America**

The casino industry has blossomed in most of the states in the United States of America since the 1960's. It has been widely accepted as a clearly important provider of jobs, wages and taxes to the US economy. One of the most significant developments in the US labour market is that some of the technologically more advanced industries draw a high percentage of labour form abroad whereas casino developments in the US draw almost one hundred percent of their labour locally. There could be no doubt that in the US casinos has been a major instigator for capital expenditure.

A significant development in the United States was the development of casinos in the Indian reserves. The Mashantucket Pequot tribe in Ledyard, Connecticut, opened the Foxwoods Casino, the most successful casino amongst the native American casinos. Currently, approximately 115 native American casinos operate in the United States (Arthur Anderson,1996:20).

In 1995 the casino industry in the United States of America reported between $22 and $25 billion in total revenues of which 16,3 billion dollars were derived specifically from casino gambling activities. The mix of entertainment facilities in the United States is much larger than only the casino itself and it is significant to note that if it was not for the casino as an economic generator the other facilities would not have been a spin-off of the casino facilities. The revenues created out of the entertainment mix of the casino developments resulted in payments of an estimated $2,9 billion in taxes to the Federal, State and local Governments and

wages of $7,3 billion to approximately 284,000 people employed directly by casinos. These figures exclude gambling figures originating from native American casinos, cruise ships casinos and certain non-casino slot machines (Arthur Anderson:1996:25).

The development of the gambling industry in the United States of America seems to be a non-ending phenomenon. It is demand driven, as gambling has become more popular amongst the American public. The number of visits made to US casino destinations (including native American casinos) increased by 23% from 1994 to 1995 (Arthur Anderson,1996:30).

The moral issue does not play a prominent role in the gambling industry in the US. The increasing popularity of gambling as an acceptable entertainment alternative is further evidence in Harrah Entertainment Inc 1996 survey of casino entertainment, which surveys the US public's acceptance of casino gambling as a form of entertainment. The survey states (Page 31) that "a significant majority of United States adults (91%) say casino entertainment is acceptable for themselves or others. Sixty one percent of United States adults say casino entertainment is acceptable for anyone and 30% say it is acceptable for others, but not themselves. Nine percent of Americans say casino entertainment is not acceptable for anyone."

The impact of the casino industry in the United States were of such a nature that in 1995 six casino gambling companies were among the top thousand companies as ranked by Fortune magazine. Two casino gambling companies were included in the top twenty most respected companies in the United States by Forbes magazine in 1995. Seventy percent of the casino gambling industries' total market equity value belongs to thirty companies that are publicly traded and are subject to State regulation. Those same thirty companies also shared approximately 65% of the total estimated revenues for the industry (Arthur Anderson,1996:51).

The US gambling market is extremely strictly regulated. The purpose of such strict control is to ensure the integrity of the owners and operators of the casinos through detailed background (probity investigations) and extremely high standards of licensing control.

The result of these high standards of control ensures that there is public confidence in the conduct of games through the on-going regulatory scrutiny of casino gambling operations. The funding of the regulatory agencies is done exclusively out of gambling revenues.

- **The Australian Model**

Australia has a very long association with gambling and has been at the forefront of many developments in the industry. The totalisator system in horseracing was developed in Australia and has also found its way to South Africa. Australia furthermore has a long history in legal gambling slot machines and is one of the leading countries in developing technology.

Some key features of the recent expansion of gambling in Australia are (Australian Productivity Commission Report,1999:101).

- A proliferation of gambling forms, which commenced with the spread of casinos and then of electronic poker machines, with lottery products also becoming more diverse and sports-betting expanding (including through the internet);

- Increasing accessibility and convenience of gambling, which in most jurisdictions is part of the suburban scene;

- More rapid modes of gambling, through electronic machines with much higher spending rate than the old "one-arm-bandits", as well as more frequent race meetings and lottery draws;

- The privatization of the traditional government run gambling forms - TAB's and lotteries - with involvement of large corporations, and an increase in the concentration of ownership in some areas; and

- More pervasive advertising and promotion of gambling (including the use of gambling as a marketing tool for other products).

The Australian Productivity Commission Report (1999:121) estimated that gambling industries in Australia account for about one and a half percent of Australia's Gross Domestic Product (GDP).

Some facts about gambling in Australia (Source: Australian Productivity Commission:1996:152)

- In Australia (1997-1998), net expenditure (or the amount lost) on gambling was around 11,3 billion Australian dollars. Of this, Australians lost 10,8 billion dollars, the remainder being lost by overseas visitors. Turnover (or the amount wagered) was around 95 billion dollars;

- Around 7,000 businesses provide gambling services throughout Australia, of which 28,888 are pubs, 2,408 are clubs, 13 are casinos, and the remainder are lotteries and other businesses;

- Over 37,000 people were employed in businesses where the predominant activity was gambling - around 20,000 were in employed in casinos and more than 15,000 in totalisator betting, lottery and other gambling businesses. In addition, over 120,000 people were employed in clubs, pubs, taverns and bars where gambling is a secondary activity;

- A mix of public and private ownership characterizes gambling. For example, the Adelaide casino and most lotteries are publicly owned,

whereas most gambling machine venues are commercially owned and operated or are in the not-for-profit sector;

- Due to the expansion of gambling machines in Australia, Australia's manufacturers of machines have become world leaders in innovation and design of games. The Australian market is based on “pokie” machines that have come to be known all over the world as Australian machines. They are as sophisticated as slot machines. They have to be; almost all of them are to be found in clubs where repeated play is measured in visits per week, rather than visits per year as in resort destinations. The average Australian currently spends about 760 dollars each year on gambling. It makes Australians by far the heaviest gamblers in the world, spending at least twice as much on average on legalised gambling as people in North America and Europe.

- The impact of gambling on the Australian economy is so significant in positive and negative terms that it cannot simply be regarded as another industry. Surveys by the Australian Productivity Commission indicate that representatives of the gambling industry have argued that there is little that is special about gambling and that the industry is just like any other industry competing for the consumers dollar and are also excessively burdened by Government regulation and taxation.

2.8 THE CHALLENGE FOR THE BEST UTILISATION OF THE CAPE METROPOLE CASINO LICENCE

2.8.1 The Hybrid Model Used in the Western Cape

Various models have been developed worldwide to design and implement policy to legalise gambling, particularly casinos. The Hybrid Model (Cabot,1996:82) has as its objective the maximization of benefits and minimisation of costs. Variations of this model exist. A **first** variation exists

where there are attempts to apply different forms of regulation to different persons based on geographical origin. Many jurisdictions, such as Egypt, only allow gambling in its casinos by tourists and prohibit gambling by its own citizens.

A **second** version is to attempt to apply different models to different types of behaviour. It is a controversial policy because it applies conflicting sets of policies to the same group. In this model governments want casino gambling to generate taxes, create jobs and infrastructure, but feels that it will have to curb the negative consequences to its citizens as opposed to tourists. It battles to apply a different model to its citizens than to tourists.

A **third** version is where different models are applied based on demographics. It stimulates the demand for gambling amongst the rich, but prevents the development of casinos in poorer areas.

The legalisation of gambling in South Africa was always a controversial issue for the regulatory bodies to deal with. Many arguments have been raised regarding the positive and negative impact of gambling.

2.8.2 The Request for Proposal ("RFP")

The RFP (1997:7) states that in terms of the policy determinations "the Board must be mindful of, *inter alia*, the positive and negative social, economic and environmental impact that the casino development may have on the immediate surroundings and the region. Regards shall therefore be had to:

- The extent to which the project will add economic value to the region and/or will displace existing economic developments in the region; and

- The protection of the community against the negative social impact of gambling and the possibility that the community might transfer expenditure, earmarked for basic essentials, to gambling".

Page 11 of the RFP further states that "the project shall include a world-class casino development and prestigious, year-round tourist attractions. The casino development shall be situated in the Cape Metropole and the various tourist attractions may be on a different site in the region."

The policy applied by the Western Cape Gambling and Racing Board was remarkable as it stipulated that all casino bid proposals had to include a significant contribution to the Cape Metropole tourism infrastructure. The Western Cape Gambling and Racing Board had not specifically requested a convention centre, but all of the five casino bid proposals in the Cape Metropole included some kind of convention centre or multi-purpose center.

In the Board's RFP: 1997:6 it is stated that "the project shall not be a "stand alone " casino complex, but shall include various tourism infrastructure developments. The world-class casino development, offering a range of select amenities in addition to gambling activities, shall be situated in the Cape Metropole."

From the RFP it is clear that casino licence applicants were obliged to add something unique/special to their respective casino bid proposals. Tourism infrastructure additions also played a prominent role in the adjudication process conducted by the Board.

In September 1999 a casino licence was granted to Sunwest International (Pty) Ltd. Sunwest's casino bid proposal included two significant tourism infrastructure elements, namely a R140 million contribution to a Cape Town convention centre and the construction of the Roggebaai Canal between the Victoria & Alfred Waterfront and the City.

The CTICC's contribution and the construction of the Roggebaai Canal were conditions attached to the licence. The R140 million contribution towards the construction of the CTICC prompted the City of Cape Town and the Provincial Administration of the Western Cape to contribute additional finance. The total capital expenditure towards the CTICC came to R504 million.

Plans for a convention center have been on the cards for many years, but a lack of finance always prevented any plans materialising. The award of the casino licence to Sunwest initiated further capital contributions. It is doubtful whether the development would have materialised if a casino licence were not awarded. The casino license was an instrument in the creation of the CTICC. It was an initiative to increase the economic benefits and therefore ensure that the economic benefits created erode the negative impact of gambling even further to effect a net economic benefit.

2.8.3 Gambling in Emerging Economies

Emerging economies have started to use the gambling industry to stimulate a stagnant economy or to create developments that would otherwise not materialise. Public policy has shifted from perceiving gambling as a vice to perceiving gambling as an opportunity (Eadington,1991:6). Many jurisdictions have begun the process of determining how the opportunities that particularly casinos present can be exploited. Many jurisdictions have learned to appreciate the opportunities that commercial gambling offers, because, when introduced, has typically experienced strong inherent demand. However, the satisfaction of consumer demand should not be adequate justification to legalise casinos. Casinos could be used to rejuvenate declining communities and derelict areas, particularly through the creation of employment opportunities, but casino operators could also be enticed to create infrastructure that is deemed extremely necessary.

Rejuvenating declining cities or the creation of infrastructure through the allocation of casino licences should be weighed against the social cost that occurs in a community as a result. Very little research has been done on the social cost of gambling in emerging economies. The impact of lack of productivity, divorces, bankruptcies and many other social impacts of gambling are difficult to quantify, but most certainly makes the positive impact of gambling much less.

Governments have concentrated on the promotion of the aggregate economic benefits of casino developments. The general tendency has been to argue that the net spillover from casinos has been positive. However, in the absence of thorough and rigorous impact evaluation, it may be that all the negative spillovers have not been identified (McMillan,1996:119).

2.8.4 The Case for Regulation – Legislation and Policy Determinations in the Western Cape

The Policy Determinations of the Western Cape Gambling and Racing Board has borrowed heavily from the Government Protection Model, but also contains elements of other models and is therefore closer to a Hybrid Model.

As mentioned above the model involves a strict regulation policy of a legal casino industry, which endeavors to protect the patron, and provides regulation that protects the economic interests of the state. The Western Cape basically followed the model that has been regulating the casino industry in the State of Nevada in the United States of America. Between 1931 and 1978 Nevada was the only State with legal casino gambling. It began regulating gambling in the late 1950's to try and keep criminals out of the casino industry. The States feared that the Federal Government would outlaw casino gambling if organised crime used Nevada-based

operations to finance or conceal profits from other illegal activities through money laundering (Eadington,1991:23).

The Government of the Western Cape certainly accepted the potential negative effect of gambling, but also realised that it could create an exceptional source of tax generation and the creation of infrastructure that would not be created by Government due to a lack of funding nor by the private sector due to the low profit margins. It was acknowledged by the Board that a way had to be developed to ensure that the negative impact of gambling was offset by other than purely casino developments. As the Western Cape was destined for strong tourism growth it was logical to stimulate the creation of tourism infrastructure.

The Western Cape Gambling and Racing Board pursued from the outset a policy to minimize the negative impact of gambling, to prevent over-stimulation of the latent demand of gambling and to optimise the objectives of economic development, job creation and tax generation.

The Western Cape is the only province in South Africa in which gambling board decisions are taken independently of the provincial government. No decision by the Western Cape Gambling and Racing Board requires sanctioning from the Western Cape Provincial Legislature. The opportunity for undue influence is therefore minimized and the Board maintains its autonomy and independence from political structures.

Applications for casino operator licences in the Western Cape were dealt with on a competitive call basis and five casino operator licences were allocated to the Western Cape in terms of the National Gambling Act and these licences have been distributed, one each to five regions, in order to stimulate and encourage development throughout the Province. In return for an exclusivity period of ten (10) years exclusivity zones for casinos have been created to ensure not to over-stimulate gambling in any part of the Province and to encourage the development and the creation of job

opportunities throughout the Province. This policy ensured that there will not be an over-proliferation of gambling in one specific area.

It is important to note that a financial contribution of R140 million exclusivity fee for a world-class convention centre was set as a requirement for the casino operator licence in the Cape Metropolitan region. The Western Cape Gambling Policy Determinations also expressed a strong stance on the

consideration of the following aspects during the adjudication of casino licence applications:

- "The positive and negative social, economic and environmental impact of the development and operation of a casino on the immediate surroundings and the region;

- The financial standing and resources of the applicant to ensure the successful development and long term operation of the proposed casino and its integral ancillary facilities;

- The proven experience and integrity of the operator in successfully managing a comparable gambling operation; and

- The location of the casino and the compatibility of the proposed site with the relevant planning and development policies for the area, with due regard to its accessibility to all sectors of the community (The Western Cape Gambling Policy Determinations,1996:2).

A very strong base of the Policy Determinations is the control of the marketing and advertising campaigns of casino operators to prevent the stimulation of the latent demand for gambling. Although the intention of advertising in general is the stimulation of the latent demand for gambling it was generally felt that a policy should not be designed in such a way that

it will allow advertising that could lead to an over-proliferation of gambling amongst those individuals that would never have considered gambling if such individuals were not being convinced by gambling through advertising. It does not attempt to discourage or encourage the casino industry from stimulating the demand for the casino product. It assumes that the casino operator will use resources in respect of marketing and advertising in a fair, responsible and reasonable manner to encourage sensible participation.

CHAPTER 3

THEORETICAL FRAMEWORK: ECONOMIC IMPACT ANALYSIS

3.1 INTRODUCTION

The theoretical framework provides the basis to analyse the impact of a capital investment in a specific region. It is particularly the input-output approach that incorporates all the links that exist in a regional economy. Having identified and measured the linkages between the various sectors of the regional economy, the input-output analysis can be used to predict the effect of any given change (such as a capital injection) in one part of the regional economic system on the rest of the system (Armstrong and Taylor,1978: 250).

The analysis of the effect of a capital investment can *inter alia* be measured in terms of its effect on employment levels, Gross Domestic Product (GDP), tax levels or other more negatives social impacts. An analysis of the latter will be important to determine the net economic impact of gambling. One of the advantages of such an analysis is the ability it provides to the policy maker to forecast the future effect of certain actions and utilize such result in determining whether such action should be implemented or not (i.e. whether the economic impact is significant enough to pursue a particular project). The calculation of economic impact can lead to extremely over-optimistic projections, which are often not realized in practice.

The spill over concept or the multiplier effect of a certain capital expenditure is important to determine the wider effect of the different forms of expenditure.

In the next section the different regional investment models will be discussed. In almost all of these models the availability of first-class primary data is of the utmost importance. It is probably the lack of such data that led to the lack of

attention to regional investment analysis in earlier times. The proper evaluation of regional investment policy is based on the correct data. In the absence of the correct data the determination of regional policy could easily be at fault.

The consideration of the cost of regional policy only emerged in later years. The injection of new capital in an economy was always viewed as a positive, but a number of capital intensive investments could also have severe negative implications, such as in the case of gambling. It has always been difficulty to quantify the social cost of a particular investment (whereas it is easier – with the correct primary research – to do it for the positive impact of an investment on employment, income and tax levels) and therefore difficult to quantify
the net impact of a capital investment. The "quality" of investment becomes of critical importance (Richardson,1978:241). Richardson mentions that policy objectives have to be broadened from the narrow concern with maximizing output or jobs if increases in production involve measurably more pollution or environmental degradation. Richardson continues in saying that per capita income loses its luster as the major indicator of individual welfare since it is capable of accounting for non-monetary quality of life variables.

Richardson (1978:253) provides six methods of evaluating regional policy. The **first** approach is an assessment of the effect of regional investment on an *ad hoc* basis, i.e. it looks at issues such as jobs created, but the method is somewhat unsystematic. It depends on the availability of data and leaves conclusions open to subjective judgement.

The **second** approach compares the actual growth with expected growth in the absence of any regional policy resulting in some sort of policy impact. This method does not account for the wider effect of regional policy, i.e. other than its impact on regional economic growth. This method also does not provide a methodology for measuring expected performance.

The **third** approach is the "actual minus expected growth", which focuses on the overall impact of regional policy on the aggregate regional economy. This

methodology moves the emphasis from the macro level to the micro level. This method depends on the quantification of cost and benefit, which places a constraint on the applicability of the approach.

The **fourth** method for evaluating regional policy is in terms of the extent to which it fulfills predetermined goals, i.e. regional policy is judged in terms of its effectiveness in reaching its targets. This method is restrictive as it might exclude any unforeseen, but important impacts. There is also the possibility that the influence of a number of policy makers can skew the results achieved through it, i.e. the method could easily be manipulated by a policy maker with a less desirable political agenda.

The **fifth** method of evaluation is to compare international experiences with regional policies. The limitation of this policy is that
different environments dictate different results and therefore make comparisons somewhat unproductive.

The **sixth** method of evaluating regional policies is to apply a mix of the top five methods. Well-researched and correct data still remains the cornerstone of this method.

3.2 A BRIEF OVERVIEW OF EARLIER MODELS

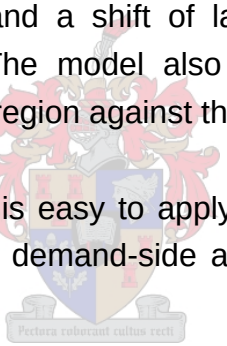
Earlier regional economic models were mostly short run macro-economic demand models, which worked well as short run impact models, but proved to be ineffective as long-term impact models. The biggest problem with these models is that they were immune to external forces. The regional income model has the dubious characteristic that it is not spatial, i.e. it does not interact with other external elements. Regional economies are interdependent with the national economy and even other economies.

3.2.1. Export-Based Models

The export-base model can be used to measure the impact of exports on a region or city. The income of a particular region is determined by the degree of sales of the region's products outside the region. Such a model can only be applied if a region or city have an open trading and exchange of knowledge with the rest of the world. This model places a strong emphasis on exports, although in a realistic world income is created through many other forms of income.

Being export-based the export-base model is often criticised as it ignores capacity constraints and the supply side of an economy. The
emphasis is strongly on demand. If there is a shortage of labour, income will increase due to higher prices and a shift of labour from local production to exports (Richardson,1979:88). The model also views the world in a narrow sense, i.e. looking at a particular region against the rest of the world.

Although the export-base model is easy to apply, it compromises in practicality due the strong emphasis on the demand-side and the virtual ignorance of the supply-side.



3.2.2 Interregional Income Models

Interregional income models pursue a refinement of export-base models. It is not only export based, but is also makes provision for interregional analysis by making exports exogeneous. Further possibilities are *inter alia*:

- The inclusion of consumption and capital goods; and
- Induced investment effects can be catered for.Income spillovers and secondary export repercussions are the most distinctive features of interregional income models (Richardson,1979:94). Income multipliers have often been used to conduct economic impact studies, without being effective. The reasons for the inefficiency are *inter alia* the failure to give

sufficient recognition to the source of the impulse and the lack of recognition to the indirect and induced effect by sector.

Regional income and multipliers analysis can be further developed into models that incorporate economic fluctuations. Economic fluctuations at national level undoubtedly have an effect on a regional economy. Negative development at a national level normally impacts negatively on a region, but when the national economy is doing well the region experiences a similar trend. Such cycles are determined by consumption and investment trends.

3.2.3 Demand Growth Models

These quasi-growth models depend on capital. These models are generally not reliable as they have certain long run defects. These defects relate to assumptions of stability in key parameters and do not take regional disparities into account.

3.2.4 Regional Investment Models

Some of the first references to regional investment were in a neoclassical view. Further developments would stress the durability and immobility of capital in space and the interdependent nature of spatial frictions as obstacles to interregional capital flows (Richardson,1978:132).

Newly injected capital flows would generate exponential growth. The multiplier-accelerator model is the first of the neo-Keyensian type of model to make reference to this kind of growth. An investment multiplier is a method to demonstrate the off-spin effect of a capital injection on regional investment decisions. Such a spin-off can occur immediately or it can only occur over a period of time after such an investment was made.

A further neo-Keynesian multiplier development has a linear programming approach using a minimum capital-output ratio criterion that endeavors to optimise interregional investment.

The particular source of investment is a further important dimension in the economic multiplier effect of a capital inflow. The interdependence between public and private sector investment is an important determinant in the decision to make a private investment. Investment in social projects such as transportation, health and other "community-based projects" will lead to a congestion of communities, which will create a market that will prompt private sector investment.

It is debatable whether investment in tourism related infrastructure, such as train services, roads, convention centres, theatres, etc will be done by the private sector, Projects of this nature are normally capital loss leaders and profits will only be possible in the operation of such projects. The Sydney Opera House was a significant public investment that led to a wide array of private sector investment that gave Sydney Harbour a new, attractive face that became a world tourism icon.

A range of theories has influenced the neo-classical model over time. The neo-classical regional growth model is flexible enough to accommodate such adaptations. The major objection to the neo-classical approach is that it cannot adapt to the real world problems that often clash with somewhat naïve versions of the model.

Richardson's (1979:142) view is that it can. He indicates that the objections are rather that the determinants of growth over space carry certain implications that are not easy to reconcile with the central principles of neo-classical regional models (Richardson, 1997: 142). Such principles are:

- Reliance on the price mechanism as the spatial allocator of resources;
- The trivial treatment of space (e.g. neglect of spatial diffusion theory);

- The assumption that growth can be constructively analysed with an aggregate production function and a homogeneous capital stock;
- The predilection for equilibrium solutions;
- A greater facility with deterministic rather than probabilistic models;
- The policy interference that regional inequalities can be satisfactorily dealt with by reducing market imperfections; and
- Adjusting the price system via taxes and subsidies rather than by comprehensive regional planning and infrastructure strategies (Richardson,1978:142).

The development of a cumulative causation model overcame most of the above-mentioned limitations. J Friedman in the core periphery model further develops the model, which is a more flexible approach. Richardson (1979:151) describes the core-periphery as a colonial system where resources, such as labour, capital, raw materials and intermediary goods flow from the periphery to the core. The development trend is controlled by the core to further the core's economic, political and social interests.

The investment process determines the spatial pattern of economic activities in the core and periphery (Richardson, 1979:152). Friedman predicts that core-periphery eventually breaks down due to changing markets, new innovation, etc. This model provides significant insight into the spatial problems of developing countries. Market forces, superior infrastructure and direct access explain centralised investment to government power. When this happens, investment in peripheral locations becomes an attractive option.

The space factor plays a significant part in an analysis of regional growth, not only intra-regional growth, but also inter-regional growth. Investment in a city or a project becomes the engine of growth. Factors such as spatial frictions, agglomeration economics and locational constraints and advantages play an important part in the determination of a specific growth rate.

Agglomeration economics plays a key role in economic growth and productivity through the attraction of investment. It prompts people to cluster together. The growth potential for a city close to agglomeration is larger than for cities removed from agglomeration.

The analogy within a city perspective is significant. The degree of agglomeration in a city will determine how successful the area would be in attracting investment from other parts of the country.

According to Richardson regional growth analysis is best achieved by developing a spatial growth model from scratch with the spatial concept serving as a focal point. Agglomeration economics becomes the critical variable in explaining higher productivity.

A more logical and practical application of the agglomeration model is to adapt it for dynamic applications. Any changes in the spatial distribution are the effect of variations in agglomeration and dispersion forces. The latter include changes in household and firm decisions. The spatial variations in agglomeration and dispersion forces and their time paths are thus simultaneously interdependent (Richardson,1979:162). The disbursement of economic activity creates further spatial movements. Such movements will be reinforced by changes in government policy, tastes, technology, etc.

The agglomeration model functions well in areas where there is a high degree of population congestion compared to areas that are sparsely populated.

A higher congestion of population will increase effective spatial function and make the agglomeration effect more effective as agglomeration pull are ineffective unless it operates over space.

3.3 ECONOMIC IMPACT ANALYSIS – THE SEARCH FOR AN APPROPRIATE MODEL

An economic impact study can use a variety of models, such as the export-base, input-output and regional econometric model. One of the more popular techniques to measure the economic impact of a particular capital investment on a particular region is the input-output analysis. It deals specifically with the introduction of a new capital investment in a region and the impact of such an investment on employment creation, GDP, tax, etc.

Leontief (1986:19) says that input-output analysis is a method of systematically quantifying the mutual interrelationships among the various sectors of a complex economic system.

An economic impact study will have a number of requirements. These are:

- The conversion of the anticipated exogenous change into a set of final-demand changes; and
- Employment multipliers derived from a regional input-output model (Richardson,1979:188).

Such models cannot capture the effect of external economies and are restricted by assumptions such as no price restrictions to increased output, no substitution effect of a kind that changes the matrix and no investment capacity or labour-supply constraints (Richardson,1979:188).

A cost-benefit analysis is a mechanism to incorporate the social cost of a specific investment and by making a trade-off with the positive economic impact calculates a net benefit or cost. Such an approach will be appropriate for an economic impact analysis where it is vital to include both the economic impact and social cost. This type of analysis is often justified due to the deficiencies of the price system. Prices do not always measure the marginal cost of everything and therefore the operations of the market do not always coincide with the social

optimum and projects will not be equally attractive to the private sector and to the government (Richardson, 1979:196). The failure of the market motivates the cost-benefit analysis. The cost-benefit analysis also has the disadvantage that it is difficult to calculate the social cost of a particular investment, such as in the case of the construction of casino and the emerging activity, namely gambling.

3.4 THE MODEL USED IN THE ECONOMIC IMPACT ASSESSMENT OF THE CTICC

Although many formal theories have been developed to demonstrate the importance of regional analysis, it is important to look at the techniques that have used to make these theories operational.

An input-output model has a number of advantages, which are:

- It apples a general equilibrium approach;
- Neutrality;
- Adaptability (as it can be applied in any economy); and
- It is the most implementable of all the techniques (Richardson,1979:184)

The input-output model seems to be the best alternative to apply to the economic impact of the CTICC. This model is an input-output based model of the regional multiplier and accelerator. It is a suitably modified version of the economic base multiplier.

The application of this model will enable the calculation of the direct, indirect and induced economic impact of a specific investment. It provides a fair reflection of the impact a capital investment will have on a regional economy in terms of GDP, employment and tax generation. The input-output model used in this analysis has been adapted to be applied to the economic impact of the capital injection in the CTICC. The theory has been taken into account as to provide a practical reflection of the outcome of the capital injection in the CTICC. For this purpose a

composite multiplier is utilised which included both the indirect (or inter-industry) and the induced (or spending multiplier) effects.

The methodology involves the use of a suitably modified version of the familiar model of the 'economic base multiplier' (Black,1981:16) In practical applications of the latter model (Black,1996:27), a distinction is usually made between the so-called construction and operational phases of a new project, where the former refers to a temporary injection of a new investment only, which nonetheless often has significant backward linkage effects within the region or country; and where the operational phase has a more permanent net impact on the gross domestic product (or value added) and employment within the region or country.

The model can be used to estimate the **direct** and **indirect** (i.e. backward linkage) effects as well as the so-called **induced** (or spending multiplier) effect of both the initial capital investment during the construction phase, and the new (annual) turnover or gross revenue generated during the operational phase. This can be done in respect of both the contribution to the gross domestic product and the number of new job opportunities created, for both the particular region and the wider province of state.

The model itself simply applies the standard Keynesian spending multiplier to a given increase in autonomous spending, net of import leakages to the rest of the world (Black, Siebrits and Van Papendorp, 1991: 28). For example, if the gross value of a new project C (in this case the development of a convention centre as a result of the allocation of a casino operator licence) in region W (e.g. the Cape Metropole), is given by A^{w}_{c} , it will give rise to a multiplied increase in the gross domestic product (or value added) of the region equal to:

$$Y^{w} = k^{w} A^{w}_{c} (1 - m^{w}_{rc}) \qquad [1]$$

where m^{w}_{rc} is the proportion of gross value lost to the rest of the world (r) in the form of money spent on imported capital and intermediate goods and services used on the project; and k^{w} is the familiar spending multiplier, the

value of which depends on the marginal propensity to consume, net of imports and net of direct and indirect taxes.

It is important to note that Y^w captures both the value added on the new project itself and new value created by local industries (within region W) supplying inputs to the project; that is:

$$A^w_c (1 - m^w_{rc}) = V^w_c + \sum V^w_{bc} \qquad [2]$$

where V^w_c is the value added by project C (the convention centre) itself, and V^w_{bc} is the additional value added by local supplier industries (b = 1, 2, ..., n) as a direct result of new sales of capital and intermediate inputs made to the new project.

Equation [1] can thus be written as:

$$Y^w = k^w (V^w_c + \sum V^w_{bc}) \qquad [1b]$$

Equation [1b] simply says that the new investment project, C, net of all intermediate purchases of inputs from within and outside the region, will add value in the form of new wages and profits in region W (i.e. V^w_c). It will also have certain backward linkage effects on other industries within the region. These industries, after netting out intermediate purchases, will also add value in the form of additional wages and profits ($\sum V^w_{bc}$). The spending multiplier (k^w) now comes into operation - the new wages and profits (net of taxes and savings) are spent in the local economy, working their way through the retail, wholesale, manufacturing and agricultural sectors, with some part being lost to imports and the rest adding to new wages and profits within the latter sectors. This process repeats itself over several rounds, with the successive additions to wages & profits repeatedly being divided between savings, taxes and consumption expenditure.

It is also necessary to allow for a possible ***"transfer"*** or ***"displacement" effect***, in terms of which consumers / project suppliers re-direct their purchases or supplies away from local industries in favour of the good or service produced by the new project. This transfer effect will be reflected on the 'income side' by local workers quitting their current jobs to take up positions on the new project and in the (expanding) local supplier industries; or, if the project and its local suppliers utilised imported workers or previously unemployed persons, by workers and managers in other local industries losing their jobs, or working at reduced wages and profits.

Viewed from the 'expenditure side', we can capture the transfer effect by expanding equation [1b] as follows:

$$Y^{w\prime} = k^{w} (V^{w}_{c} + \sum V^{w}_{bc} - \Sigma V^{w}_{t}) \qquad [1c]$$

where $- \Sigma V^{w}_{t}$ refers to value added destroyed in all local industries (other than project C and its suppliers), i.e. $t = n+1, n+2, ..., n+m$.

The magnitude of such transfers will evidently depend on the savings propensities of local consumers, or more specifically on the extent to which they are prepared to dip into savings in order to undertake the additional spending associated with the new project. Equally important is the export orientation of local industries, including the new project itself. If the latter produced solely for the export market, the net transfer effect is bound to be very small, if not zero.

The above model needs to be further modified if the new project is a tourist-type facility attracting visitors from outside the region. Apart from the amounts such visitors spend on the project itself – in this case within the conventions centre as delegate spend - (which are already accounted for in the value added indicated above), they may also undertake additional spending in the local economy – unrelated to the project as such, i.e. spending on entertainment, restaurants, shopping, transport, etc. The point is that such additional spending would not

have taken place had the new project not attracted visitors to the region in the first place. Equation [1c] can thus be expanded as follows:

$$Y^{w}{}'' = k^{w} (V^{w}{}_{c} + \sum V^{w}{}_{bc} - \Sigma V^{w}{}_{t} + E^{w}) \qquad [1d]$$

where E^{w} is additional spending by visitors on local goods and services other than those supplied by the new project.

The model can be further expanded to allow for a possible accelerator effect, in terms of which new investments are induced by the project-driven multiplied increase in the region's income (e.g. Wilson; Black & Saxby). This means that $Y^{w}{}''$ in equation [1d] can trigger further investment activities in the local economy, to which the same spending multiplier, k^{w}, should be applied. For example,

$$Y^{w}{}''' = k^{w} (V^{w}{}_{c} + \sum V^{w}{}_{bc} - \Sigma V^{w}{}_{t} + E^{w}) [1 + n^{w}] \qquad [1e]$$

where n^{w} is the induced investment coefficient – giving the percentage increase in value added by new investments undertaken directly as a result of the multiplied increase in regional income made possible by the new project and its associated backward linkage effects. The extent of such induced investment will depend on the degree of capacity utilisation among local industries. If the latter are operating at full capacity, for example, the (permanent) increase in the demand for their goods and services may well encourage them to expand their capacity.

This additional induced increase in income (i.e. $k^{w} (n^{w})$, in percentage terms) could theoretically trigger further induced investments, giving rise to a fairly complicated geometric series, but such effects are really too small to warrant further consideration here (Black, 1996:31).

Yet another consideration refers to the induced fiscal effect, or the additional revenue (and public spending) induced by the above multiplied increase in

income. Induced tax revenue, ΔT^{w}, can be derived by a simple extension of equation [1e], e.g.

$$\Delta T^{w} = k^{w}(V^{w}_{c} + \sum V^{w}_{bc} - \Sigma V^{w}_{t} + E^{w})[1 + n^{w}]t^{w} \qquad [3]$$

where t^{w} is the (weighted average) direct and indirect tax rate applicable to region W. If all of the induced tax revenue is injected back into the region, in the form of additional government spending (say for instance on tourism infrastructure, public transport, etc.) then equation [1e] becomes:

$$Y^{w}{}'''' = k^{w}(V^{w}_{c} + \sum V^{w}_{bc} - \Sigma V^{w}_{t} + E^{w})[1 + n^{w}][1 + \Delta G^{w}] \qquad [1f]$$

where ΔG^{w} is additional government spending made possible by the initial project, C (the convention centre) – via its net direct, indirect and induced multiplier effects as well as its induced investment effect.

Further possible expansions of the above model – not considered here – include making allowance for the possible existence of differential multipliers among different spending groups within the region (Black & Saxby, 1996: 20); and consideration of the additional feedback value added as a result of interregional repercussionary effects (Black,1996:33).

The allocation of a casino operator licence to Grandwest in the Cape Metropole could therefore be viewed from a broader perspective – relating to the particular conditions that applied to the tender process and the eventual granting of the casino license. One of the key reasons for the allocation of a casino operator licence to Grandwest (and not to the other four casino bids) was *inter alia* due to the contribution to the development of a convention centre in its bid. It is common cause that the inclusion of the convention centre (which is not physically part of the casino development, but off the casino site) played a significant role in the reasoning to off-set the negative social impact of casino gambling with a development that the Cape Metropole desperately needed and that in itself holds

no negative impact other than possibly displacing other present smaller conference and exhibitions centres in the Cape Metropole.

The net effect of the casino policy has been to initiate an additional new investment in the form of the international convention centre (and possibly also some of the associated physical infrastructure, e.g. the canal). The latter investment, it can be argued, would not have taken place in the absence of the new casino complex. In terms of the above model, these developments imply an extension of the 'economic base', i.e. the addition of other sources of autonomous spending. For example,

$$Y^{w\prime\prime\prime\prime} = k^{w}(V^{w}_{c} + \sum V^{w}_{bc} + V^{w}_{i} + \sum V^{w}_{ji} - \Sigma V^{w}_{t}{}' + E^{w}{}')[1+n^{w}{}'] \qquad [1g]$$

where V^{w}_{i} is the value added by the international convention centre, $\sum V^{w}_{ji}$ is the value added by associated supplier industries, and $\Sigma V^{w}_{t}{}'$, $E^{w}{}'$ and $n^{w}{}'$ are defined as before except that they now refer to both the casino complex and the convention centre and to their respective backward linkage effects.

As far as the present study is concerned, we shall consider the above methodology in determining the economic impact of the CTICC. The development of the CTICC was made a condition to the licence granted to Grandwest (Pty) Ltd.

The challenge of the Cape Metropole casino operator licence was the creation of tourism infrastructure that was unlikely to be developed in any other way. A premium was placed on the Cape Metropole casino licence as the "price" of the licence was much higher through the building of the Cape Convention Centre. The present holder of the Cape Metropole casino licence would not have been granted a licence if the applicant did not comply with the development of the convention center condition.

The Policy Determinations of the Western Cape Gambling and Racing Board were clear in its stipulation that the casino operator licence available in the

Western Cape would only be granted to such an applicant that would deliver an infrastructure contribution such as the convention center. This policy stretches far beyond a casino operator licence, but encapsulates an economic impact beyond gambling on the Cape Metropole and wider Western Cape economy.

CHAPTER 4

GAMBLING AND ITS ECONOMIC IMPACT

4.1 INTRODUCTION

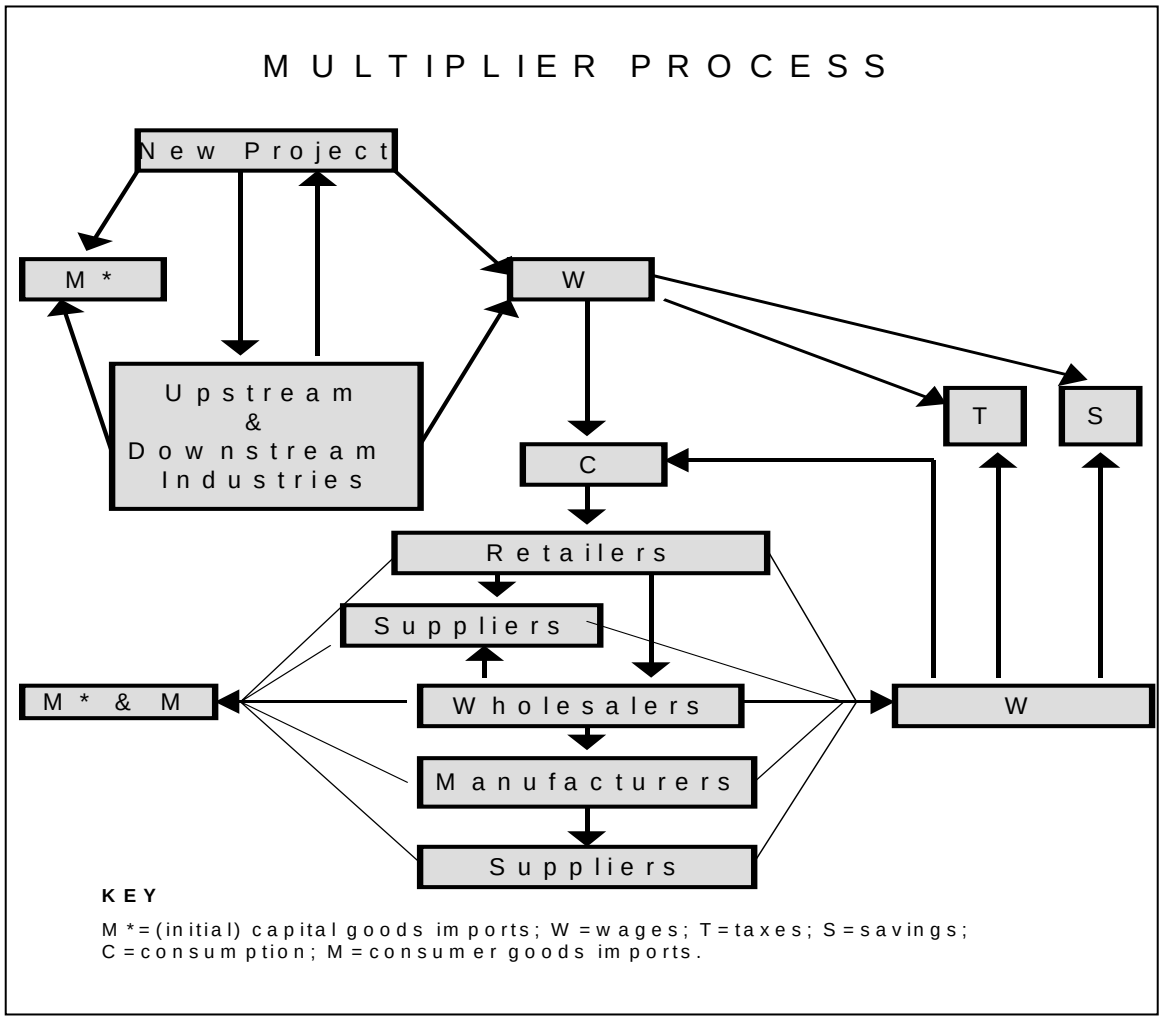
The determination of gambling policy within a specific legal framework and the importance thereof to ensure the biggest possible economic benefit is extremely important. Without such a policy it will be difficult to effectively capture the economic benefits of gambling. On the other hand, the lack of effective gambling policy may also lead to a net negative social impact.

A regulatory framework should endeavor to minimize the extent of displacement and the negative social impact of a new casino complex. Creating a range of non-gambling related ancillary facilities attached to a casino complex will create an economic benefit, but will also attract more potential gamblers that may reinforce the negative social impact of gambling.

4.2 THE IMPACT OF GAMBLING

Different forms of gambling have been introduced into society, but the introduction of casinos has been the most significant. Casinos create an initial capital injection into an economy (net of an initial import leakage) that creates a multiplier process within a region and a specific country, giving GDP a boost above the level of the initial injection. **Figure 4.1** provides an indication of this impact.

Figure 4.1: The Multiplier process



Source: Economic Impact Analysis: Kudu Natural Gas project: Africa Institute for Economic Policy and Regional Integration (AIPA)

The impact of the CTICC occurs in three ways, i.e. the direct, indirect (backward linkages) effects as well as the induced effect (through the spending multiplier) in respect of the relevant investment. The impact will see its effect in respect of both value added to the GDP and the number of employment opportunities created.

The **direct impact** is the value added in terms of wages, salaries and profits through a new investment in a particular industry (in this case the casino

industry). It is the total initial capital investment minus initial capital and material imports from the rest of the world and minus purchases of material inputs from domestic suppliers in a region and the rest of a country.

Gambling policy is important to determine the extent of the capital investment made through the allocation of a casino licence. Gambling policy can make the realistic assumption that social cost is inevitable through the allocation of a gambling licence and can therefore ensure that the capital investment is as high as possible, not only through an investment in a casino, but also in related infrastructure, such as entertainment, a conference centre or any other leisure related facility. Through such a policy it can be ensured that the direct, indirect and induced impact of a gambling facility and the other infrastructure created outstrips the social cost that originate from gambling.

The development of a casino and related facilities, such as the conference centre, will have an impact on the region's income through the impact on the GDP, the creation of employment opportunities and its impact on the national, provincial and local tax level.

The **indirect impact** is the value added by supplier industries within a region as a result of the purchases undertaken by the new investment (e.g. the increased wages, salaries and profits earned through the new investment will be spend on goods and services). In effect the indirect impact is the sales out of the conference activities value minus import leakages and minus material purchases from domestic suppliers outside the country.

The **induced impact** lies in the spending multiplier and this value is determined by the marginal propensity to consume net of imports (i.e. of consumer goods and on the direct and indirect tax rate.

The direct impact that flows out of an investment in a casino or related facility will add value in the forms of wages and profits in the region. The investment will also have other backward linkages in respect of other industries and these backward

linkages will further add value in the form of additional wages and profits. The spending multiplier (i.e. the induced impact) will flow out of the combined impact of the direct and indirect impact. The new wages and profits are spent in the economy in the form of retail, wholesale, manufacturing and agricultural sectors. Some of this expenditure will be lost to a specific region through imports and this expenditure will leak out of the regional economy. The process multiplies itself repeatedly and the successive additions to wages and profits will be repeatedly divided between savings, taxes and consumption expenditure.

4.2.1 Gambling By Tourists

The economic benefits through gambling by tourists and members of the community are tied to the additional gambling expenditures (i.e. expenditures over and above expenditure on accommodation, food and beverage, etc.). If such additional expenditure on gambling by tourists and members of the community takes place it creates the same economic benefit to a community as the exporting of goods and services. The community benefits both from the **direct and indirect** (i.e. backward linkages) expenditure in the casino and the additional economic stimulation created by the multiplier effect. Such an impact will only occur when non-resident tourists visit a gambling facility with the primary objective to gamble.

Gambling is only a tourist attraction if tourists travel specifically to exercise their gambling option. Normally tourists do not gambling in South Africa and a visit to a casino does not feature prominently in a tourist itinerary. Research in Australia has shown that the bulk of gambling revenues in casinos, come from local residents and domestic tourists (McMillan, 1996:95). In a regional economy gambling expenditure by local residents does provide a net stimulus to economic growth. There are exceptions to this experience where tourists travel to experience a gambling venture, such as in the case of Las Vegas, a city that has been built and developed on the gambling industry. In this case gambling becomes the primary reason for traveling. Casinos only contribute to tourism

growth if they become the center of or add to an existing tourist attraction portfolio. It is doubtful whether casinos *per se* will become key tourist attractions in South Africa and the Western Cape. Most casinos in the Western Cape and South Africa are patronized by local residents. Only when tourists (i.e. non-residents) visit a casino complex to visit a restaurant, watch a movie, etc, will it add to the total tourist expenditure.

It is also important to consider whether gambling creates "additional demand" compared to simply switching demand from one form of expenditure to another, such as normal tourist expenditure, e.g. as eating out, level of accommodation utilised (i.e. staying in a three star hotel, rather than a five start hotel) to have more money available for casino gambling. The typical tourist to South Africa visits South Africa for a range of other attractions and might engage in coincidental gambling, but it will not be the driving force behind a visit.

4.2.2 Tax Generation

Traditional tax generation is a strong motivation in the regulation of gambling. Jurisdictions, also in South Africa, extract large sums of tax revenue from casino gambling. It also prompts jurisdictions to spend more. An increase in tax generation can be illusory though as the negative impact of social gambling in not taken into account.

4.2.3 Employment Creation

The impact of casinos on the creation of employment opportunities is enormous. Atlantic City casinos employ 49 000 people, which creates 66 000 additional jobs, while Las Vegas casinos employ four times that number and unemployment in Mississippi dropped by 22% since the introduction of legal casinos (Cabot,1996:63). In the United Sates it is estimated that gambling jobs have a multiplier of 1.7, meaning that for every casino job, there are 1.7 other jobs created, many in support businesses that serve the casinos (Cabot,1996:63).

People arguing against casinos and casino employment generally regard it as “poor” employment, as it is argued these jobs are associated with low wages and a vulnerability to seasonality. It is also argued that people from outside the area often fill jobs. It has been particularly evident during the construction and operational phase of Western Cape casinos; although there were stringent stipulations in the conditions attached to the licence to employ local people. From a construction point of view it was soon clear that about half of the construction workers came from outside the Western Cape.

4.2.4 Infrastructure Development

Casino developments have often been used to revitalise deteriorated areas, particularly through the upgrade of municipal infrastructure, such as roads and other municipal services. On the other hand, the construction of casinos can also place more pressure on local governments to provide for the infrastructure to support such developments. Governments are often not aware of the negative trade-off between taxes generated through gambling and the obligation to create municipal infrastructure at its own cost, therefore, are not able to recoup these investments from higher taxes.

4.2.5 Displacement Effect and Negative Social Impact

The displacement effect created through casino developments are often ignored or simply not sufficiently taken into account. It is important for the regulatory body to ensure that the benefits (i.e. the direct, indirect and induced impact) created through the development of casinos and other forms of tourism infrastructure, such as conference centres, outstrip the negative impact and/or displacement effect. There is no doubt that the development of casinos has a significant impact on three fronts, i.e. contribution to GDP, employment creation and tax generation. The positive impact often offsets the negative social impact and possible displacement effect.

Apart from the potential displacement effect on other expenditure items, various other factors could play a role in the decline of profits in the retail sector. These factors could include:

- Movements in the general business cycle and hence retail sales;
- A negative growth per capita in private consumption expenditure;
- Declining employment levels;
- A decline in the gross income of farmers;
- Higher tax collections from households;
- Increase in debt ratios; and
- Stagnation of property and equity levels (Collins,1996:21).

It also often argued that casinos do not create new business, but merely takes money from other industries, such as the retail industry, which might lead to job losses in these industries converted into jobs in the casino industry. It is also argued that traditional business, such as the retail industry, cannot compete with casinos as the latter thrives on an "addiction" of some kind. Therefore employment is taken away from traditional sectors of the economy providing a community benefit to an addictive activity that creates a social cost.

Casinos are also an additional form of entertainment. This form of entertainment could take money, and therefore employment opportunities, away from other forms of entertainment. It can be argued though that in a proper market economy, the businesses will succeed if the consumer prefers it.

An investment into a casino complex will result in new forms of expenditure, including expenditure on gambling and retail in a casino complex. This diversion of expenditure could make the impact of the investments in terms of GDP, employment opportunities and tax generation less as it displaces expenditure away from retail and traditional forms of entertainment. It will therefore will result in those businesses failing or decrease in turnover leading to a decrease in overall GDP contribution, job losses and a decrease in the tax base.

It can be argued that this type of displacement is a general “cost” to an economy and will be difficult to avoid in an economy that continuously expands. The building of shopping centers is a case in point. A new shopping center serves the shopping needs of a community. Traditional shopping centers only fulfilled in the shopping requirement. The new trend is to build “shoppertainment” centres where a shopping and entertainment experience is provided to the shopper (Collins,1996:32). Such a development capture market share from the traditional shopping centre, which will result in a decrease in turnover (and eventually in GDP), job losses and a smaller tax base. It often prompts the traditional shopping centre to modernise to recapture market share. Economic development is ensured in this process of development and modernisation.

It is also common cause that modern casinos offer a range of benefits as marketing tools to draw latent gamblers and in the process stimulate the latent demand for gambling. Casinos offer rooms, food and entertainment at discount prices or for free and places other competitors in the accommodation, food and beverage market in a disadvantageous position that could lead to job losses in the traditional entertainment sector (Kantor,2000:18).

The displacement effect created through gambling received considerable attention in the Australian’s productivity Commission’s Inquiry into Australia’s Gambling Industries in 1999. The misconception that gambling generates no worthwhile benefits is based on the materialist allusion that only tangible goods or services yield economic gain. It ignores the pleasure that people derive from some activities regardless of any tangible input. Many people gamble because of the enjoyment they get from the venue, the social interaction, the risk, the thrill of anticipation or some combination of the all. The industry has rightly emphasised that many people who gamble are simply buying time or seeking distraction, as with other forms of entertainment. The argument can be made that the entertainment attached to gambling is an economic benefit. Perhaps reflecting the popular misconceptions about intangible goods, even advocates for the gambling industries often underplays the gains to consumers from increased access to a valued of desired activity. Instead, they typically point to benefits in

terms of expenditure, incomes, jobs and trade associated with the expansion of their industry, both directly and indirectly. In some cases the Inquiry has found that the production-side benefits from liberalising gambling have often been greatly exaggerated and are modest and are often modest compared with the economic benefits derived by consumers (Australian Productivity Commission,1999:16). If the gambling industry was not committed to expand, the money spent on gambling would have been spent elsewhere. The Inquiry has found that most of the resources that went into gambling would have been spent elsewhere. And most of the resources that went into the gambling industries would have been employed in other uses, creating similar levels of income and jobs to gambling itself. The Inquiry has further found that while there may be instances where additional jobs or income may have been generated – say in depressed regions – most of the revenue of the resources in the gambling industries will have been diverted from other industries, such as retail which is normally the section of the economy that would be expected to lose from the growth of gambling. Such diversion should in itself not be of concern to policy makers, unless it reduces the efficient use of economic resources, rather than simply reshuffling them. The diversion could be positive though and would further enhance the direct, indirect and induced impact of gambling.

The argument could also be made that gambling activity would divert money away from savings and the increased expenditure would also enhance the direct, indirect and induced impact of gambling.

The Australian Productivity Commission has found although the gambling industry employ a large number of people, the net production benefits of gambling are small when account is taken of the substitution effects and the alternatives available from gambling spending (Australian Productivity Commission,1999:51). Benefits in terms of employment and activity in the gambling industry are largely offset by declines in industries that have lost the consumers' expenditure to gambling.

4.2.6 The Social Impact of Gambling

The social impact of gambling is a more serious issue, particularly in a developing economy in which a high degree of poverty exists. This cost is more affordable to developed economies compared to developing economies. It is also a difficult problem to deal with, as the social cost of gambling is difficult to calculate. Ver y few countries have done extensive research into this cost of gambling as politicians would normally shy away from it. Gambling policy originates in political structures and is always motivated through the positive impact it has on the GDP, employment creation and particularly on the regional tax base, which in a federal-type political structure in a developing economy is always beneficial. The social cost would limited the positive impact and in some cases even overshadows the positive impact. The social impact of gambling occurs in a range of social problems, such as domestic violence, lack of productivity, bankruptcy, divorce, liquor abuse, etc. These social phenomena are extremely difficult to quantify and offset in a reasonable way against the positive impact.

4.2.7 Competition

In a regulatory environment the forces of gambling competition are limited and the impact of this aspect is further considered. Competition in terms of supply and demand will benefit the consumer, as the suppliers will adjust prices in a competitive environment to lure the market.

Kantor (2000:14:13) expresses the view that the gambling industry is no ordinary industry. In a traditional ordinary industry one finds a set of buyers exercising their preference for a specific product without too much interference of the government of the day or the disdain of their fellow citizens. The supply of these products and the frequency thereof are based on the preferences of the consumer. The result of this traditional competition on both sides of the market is that the price the customer pays for the product he/she is purchasing will roughly

cover all the cost of supplying them, including the cost of capital employed. The supplying firms will on average earn what is traditionally called a normal return on their capital they employ after an appropriate adjustment for the perceived risks for doing that particular kind of business.

The gambling industry differs somewhat from the above traditional model. A normal gambling industry, which most probably will be operating in a highly regulated environment, can only enter the industry after complying with the legislation, rules and regulations of the regulatory authority as well as the terms upon which gambling licences are provided. Most regulations and policy determinations will restrict entry of competitors into the industry and a monopoly situation is created. The "price" for that monopoly is normally an exclusivity fee, a condition that tourism infrastructure is created (e.g. the development of a convention centre), a high level of gambling tax or a combination of all the previous, normally called a gambling tax.

The gambling industry in South Africa is will not be governed by normal economic principles. The number of casinos is to be limited to a maximum of forty (40) nationwide, as recommended by the Wiehahn Commission. South Africa has decided that the demand for casino gambling and other gambling activity will be controlled in the public interest. Gambling is to be **restricted** rather than **prohibited** in the public interest. When entry to the industry is restricted to some fixed number of casinos and the average licenced operator is able to earn excess profits, there will be no tendency for the excess returns to be competed away.

Extraordinary restrictions on competition in a highly regulative environment and the expense through which an operator must go to acquire a licence coupled with the high levels of taxation implies that the gap between the resource cost of supplying a gambling opportunity, i.e. particularly the capital outlay of the infrastructure involved, and the price the gambler pays to gamble have been very wide in but the most free and effectively contestable of gambling markets (Kantor,2000:25). It is exactly this wide gap between price and cost that has encouraged illegal activity and tax evasion. Illegal gambling outlets require very

little other than a venue and second-hand untested slot machines and tables. If the specific society has got a high propensity to gamble and gambling is prohibited in a jurisdiction, it provides a great opportunity for criminal elements who will maintain their own form of monopoly and generate monopolistic profits and will therefore not have the high entry cost to operate in a legal environment. Illegal casinos are almost always "stand-alone" casinos with very few or no ancillary entertainment facilities or tourism infrastructure.

Kantor (2000:14) finds that competition in the gambling industry can basically take two forms.

Firstly, the gambling operation can compete for extra gambling custom by offering better odds. Better odds can be offered to the player in terms of more occasional wins, or smaller, but more frequent payouts. There exists huge competition between different games and different machines and is normally predominated by the innovations of the designer of the games and the machines, which will determine this specific and unique entertainment mix, which is offered to the customer.

A **second** form of competition is that the gambling operation will offer a better service to the customer, such as in the form of free drinks and accommodation. The outcome in a gambling environment would reflect the interaction of the preferences and tastes of the gambler, the cost of supplying such a service and the innovation in respect of games and machines of the suppliers. The cost of provision will depend to a large extent on the specific technology available. In practice different forms of gambling in a specific entertainment mix will co-exist with each other and will always be a market that caters for a wide variety of customers in respect of their tastes and budgets.

The economics of gambling is to a large extent determined by two factors, i.e. the cost of providing the gambling facility and the number of people that will utilise them. The cost of operating a Las Vegas type casino will be very different from that of a typical warehouse filled with old and second-hand slot machines with

outdated games. The odds on a gambling facility at an expensive capital outlay casino are bound to be less favourable to the gambler than the cost at a cheaper facility where the capital outlay and the cost of creating the operation are much smaller. Legal operators are bound to pay two forms of tax, namely company tax (to the national government) and gambling tax (to the provincial government).

The key criteria for a legal operator to consider are taxation. Taxation on the revenue will also reduce any competitively determined payout ratio. Higher taxes on gambling revenues will tend to reduce payout ratios and amenities and so reduce the demand for gambling. Any reduction in cost of the legal operator will ensure that such savings are passed onto the gambler in the form of better payout ratios or a better service. As the cost of creating the gambling opportunity increases it would reduce the potential payout ratio to the gambler and effectively limits the economic impact of a casino.

4.2.8 The Relevance of Advertising

Many models or variations have developed worldwide in this respect. The economic framework of the gambler protection model would not allow for advertising (as is the case in the United Kingdom), in contrast with most other forms of industry in a normal competitive environment (Cabot,1996:64).

The worst-case scenario in the gambler protection model will allow an advertising campaign, but only to the extent that it does not over-stimulate the latent demand for gambling, a regulation which is difficult to monitor. Other variations could find the extreme such as where the government hopes that general advertising will stimulate the demand for its product amongst the local population, but that the product is advertised amongst foreigners, in particular tourists, as is the case in Egypt. The casino environment in the gambler protection model does not allow for the capitalist to seek his/her profit in a competitive free market environment. The casino industry in a

gambler protection market is simply regulated in a strict form to achieve political, economic and social goals. In practice this means that a gambler cannot use the free market principal to obtain information on gambling odds that could assist him/her to make an informed decision and choose a casino, which will offer him/her the best odds. Most advertising campaigns in a gambling environment will not concentrate on the odds, but to advertise different casinos in terms of the goods and services offered. Such advertising campaigns are direct attempts to stimulate the demand and have little other economic benefit. Effectively it would have a limited impact on the economic impact of gambling (Cabot,1996:71).

4.2.9 The Cost of Regulation

The direct, indirect and induced impact of gambling could also be further offset by the cost of regulation. In contrast with other industries the regulation of gambling at a significant cost. Although regulatory authorities ensure the collection of gambling tax that lands in the provincial coffers, the cost of regulation, i.e. setting up and maintenance of gambling boards with an inspectorate and investigation officers to monitor the gambling industry comes at a significant cost. The cost of regulation is passed onto the operator and eventually to the consumer (the gambler) and eventually limits the economic impact.

Casino operators must comply with government regulations, which create a high indirect cost through the creation of economic inefficiencies, and these costs will be recovered from the gambler, which limits the economic impact. The economic inefficiencies are reinforced due to the fact that the casino operator can set prices above competitive rates. These economic inefficiencies and indirect cost of regulation do not have to be a bad picture altogether. Regulation of this sorts maybe the most effective way in achieving political, economic and social goals. The cost of regulation in the gambler protection model is high due to efforts that are being put in place to keep undesirable criminals out of the industry, which in

turn create barriers that may keep other suitable casino operators out due to the high cost and risk that are involved with the bidding process and the unlikely opportunity to obtain a licence. Public policy will therefore operate in an equation that will include the high cost of regulation, creation of tourist opportunities, jobs and tax generation. This form of regulation may create costs in higher barriers to entry that will generate high prices in the casino industry, which will impact negatively on the potential gambler. This could entail a dilution of the supply of products and higher prices, which in turn could result in less tax, less jobs and less tourism creation opportunities and effectively limits the economic impact (Kantor, 2000:12).

4.3 REGULATION AND THE ECONOMIC IMPACT IN OTHER JURISDICTIONS

Since the rapid expansion of gambling in the world the emphasis of the positive impact of gambling has often been over-emphasised, particular in affluent jurisdictions where the social impact was not that evident. Little research has been done in respect of the negative impact of gambling and the eventual net benefit (or cost).

The investigation of the Australian Productivity Commission into the impact of gambling was a groundbreaking effort. The outcome of the study was significant for the South African gambling industry as the two countries show some strong similarity in respect of its economies.

With the rapid liberalization and expansion of gambling in Australia concerns have grown about the downside for society, and in particular the impact on so-called “problem gamblers”. Regulators were faced with two issues, namely:

- On the one side are those who support the expansion of gambling, as a source of economic benefit to the state or regions concerned and of entertainment value to consumers – who, it is argued, should be just as free to exercise choice in this area of their lives as any other; and

- On the other side, are those who either denies that gambling yield any benefits to the economy or community, or who consider that the social cost and impacts on social values of the gambling facility outweigh such benefits (Australian Productivity Commission,1996:101).

The polarity of views has been reinforced by a lack of consistent information and detailed analysis about the economic and social impacts of the expansion of gambling. A dearth of relevant information has also been an obstacle to good public policy and added to the complexity faced by regulators.

The Commission has found that the gambling industry is not a normal industry as it has the ability simultaneously to provide entertainment that is harmless to many people, while being a source of distress. The Commission has also found that the "production-side" benefits of gambling are greatly exaggerated. The Commission acknowledged that while there may be instances where additional jobs or income may be generated (mostly in depressed regions), most of the resources in the gambling industries will have been diverted from other industries. Policy makers did not always view the diversions as a concern, unless it reduces the efficient use of economic resources, rather than simply reshuffling them. It was acknowledged that the gambling industry contributes to income and employment.

The Commission also stated that the benefits of gambling largely comprise the increased satisfaction that consumers gain from having access to legalised gambling, whereas the cost relate mainly to problem gambling (Australian Productivity Commission, 1996: 30). The Commission made an effort to calculate the social cost of gambling. The Commission argued that the psychic or emotional impacts on problem gamblers and their families are costs for which a value should be assigned, in the same way that the pleasure or entertainment from gambling has a value. The difference is that only the latter value is expressed through actual market prices – proxy values had to be found for the former. The Commission found that the range of estimated values for both the benefits and the costs is necessarily wide, given the uncertainties involved. The Commission has found that the net outcome, deducting estimated cost of

problem gambling from the net consumer benefits ranges in aggregate from a net loss of Autralian$1.2 billion to a net benefit of Austrialian$4,3 billion. There were significant differences between the different modes of gambling, with lotteries showing a clear benefit, whereas gambling machines (i.e. those in a casino) include the possibility of a net loss (Australian Productivity Commission,1996:35).

The result of the study had a significant impact on regulation in Australia. It was generally realised that the gambler needs to get increased protection, *inter alia* in providing adequate information. It was found that advertising accentuates the positives of gambling and ignores the negatives. The Commission commented that “advertising in gambling is misleading, because it only shows people winning” (Australian Productivity Commission,1996:25)

The findings of the Commission led to an increase in mandatory regulations, rather than simply relying on voluptuary codes of practice.

CHAPTER 5

THE CAPE TOWN INTERNATIONAL CONVENTION CENTRE: ECONOMIC IMPACT ANALYSIS

5.1 INTRODUCTION

The legalisation of gambling in South Africa provided provincial gambling boards with a unique challenge. On the one hand it was realised that the legalisation and development of casinos will result in economic benefits, such as the generation of employment opportunities and a larger tax revenue base, but on the other hand, it was also realised that negative social externalities will occur. The challenge was to off-set the negative externalities as far as possible with economic benefits that stretches further than mere casino-related employment opportunities, GDP contribution and tax revenue.

Provincial gambling boards had significant powers to determine a provincial gambling policy that would give structure to the development of casinos. In terms of national legislation the Western Cape received five casino licences. Policy makers had a number of options; they could either allow five casinos in the Cape Metropole (as this is where the biggest market is) or could decide to evenly distribute casino licences across the province. The decision was made to evenly distribute casino licences across the province. The province was divided into five regions and the licences allocated accordingly, with the most profitable licence the Cape Metropole operator licence.

It was realised that the introduction of casino gambling would result into significant negative social consequences (e.g. lack of productivity, domestic violence, bankruptcy, and a higher divorce rate, general social decay, etc) as budgets for basic necessities in the middle class had a real chance of being fettered away on gambling. This could result in the positive impact of gambling

i.e. the creation of employment opportunities, contribution to GDP and tax revenue generation being outstripped by the negative social impact.

A policy decision was made to set the “price” for a casino licence, particularly in the Cape Metropole, at a particularly high level. The Request for Proposal indicated quite clearly that only casino bid proposals with a significant contribution to community-type projects, such as tourism infrastructure, will be considered.

A Cape Town convention centre was for many years one of the key infrastructure projects required in Cape Town. The lack of such a centre resulted in Cape Town not only losing potential conference business to other cities, such as Johannesburg, Durban and cities elsewhere in the world, but also inhibited tourism growth originating in conference delegates spending additional days in the city and possibly returning on holiday at a later stage. The reason for the slow development of a conference centre was due to a number of reasons, but the most important reason was funding, Conference centres are capital loss leaders and rarely make a profit. Experience in South Africa and throughout the world has shown that conference centres are rarely, if ever, particularly profitable. On the contrary, an inherent feature of a conference centre trade is that it is a thin margin business. Centres that are vigorously marketed and well-managed may well be able to break even or produce a small surplus in operating terms. Against this background, a successful conference centre is one that enjoys a high rate of utilisation; one that is within one of two years of operation able to generate revenues sufficient to defray operating (if not financing) cost and achieves market acceptance and a high level of customer satisfaction. It should be able to generate an economic return for a city in excess of the cost of any municipal infrastructure, provincial or other subsidies or incentives it enjoys.

The conference industry is a dynamic industry that had a major impact on a number of international cities, such as Sydney, Vancouver, Durban and Johannesburg. The industry is still in an infancy stage in Cape Town.

5.2 CONFERENCE AND EXHIBITION DEMAND IN THE CAPE METROPOLE

To determine the economic impact of a conference centre on a regional economy the size of the centre will play a significant role. Exhibitions have become an integral part of conferences worldwide. It has become such an integral part of the international conference scene that it is often seen as the more profitable part of the conference business.

Independent research has been done to determine the size of the current conference and exhibition market in the Cape Metropole. The extent of conference demand in Cape Town was the driving force behind the capital expenditure on the centre. A survey to establish conference demand was done to determine the most likely utilisation level of the centre from a projected demand point of view. The survey was done independent of other sources. The direct demand does not only lie in the initial capital expenditure during the construction period, but also in the conference and related expenditure by conference delegates during the operational period.

Conference demand will see an effect during the Cape Metropole winter months when tourism numbers decrease rapidly. Conferences will break the circle of seasonality to a large extent. The South African Conferences, Exhibitions and Incentives Guide (2002: 41) lists approximately 275 conference facilities in the Western Cape of which half fall within the Cape Metropole. 61% of the venues accommodate up to 100 delegates and only 12% of the total can accommodate more than 300 delegates. **Table 5.1** provides a breakdown of conference centres in the Cape Metropole.

Table 5.1: Cape Metropole Conference Venues by Capacity and Location

Area (as per former municipalities)	Capacity	Number of venues
Cape Town	0-100	43
	101-300	28
	301-500	6
	500+	6
Tygerberg	0-100	12
	101-300	3
	301-500	1
	500+	2
Helderberg	0-100	10
	101-300	3
	301-500	0
	500+	0
South Peninsula	0-100	19
	101-300	2
	301-500	1
	500+	0
Oostenberg	0-100	2
	101-300	1
	301-500	0
	500+	0
Blaauwberg	0-100	2
	101-300	1
	301-500	0
	500+	0

To determine the demand for conferences only centres with conference and exhibition capacity were analysed in the Cape Metropole. To determine the present supply of conference centres the following centres were analysed:

- Cape Good Hope Centre;
- Cape Holiday Inn (former Cape Sun);
- Lord Charles Hotel;
- Grandwest Casino;
- Holiday Inn Eastern Boulevard; and
- Bellville Velodrome.

An assessment of conference supply in the Cape Metropole, based on telephonic interviews with a standard questionnaire, is provided in **Annexure A** and **B. Annexure B** modifies the survey results by decreasing the international component of conferences held, which results in the number of truly international conferences decreasing. It is internationally believed that a conference is an international conference if more than 40% of the delegates are from abroad, representing more than 40 countries (International Conference and Congress Association **("ICCA")** website). Other possible venues have been excluded mainly due to their inability to host significant exhibitions along with a conference. The analysis concentrates on those venues, which can be regarded as of international standard with a distinct "city" theme.

It is estimated through an interview with the Cape Convention Bureau that the survey represents about 64% of the Cape Metropole conference market. In respect of conference current demand **Annexure C** shows that before the opening of the conference centre in July 2003 about 11 000 conferences were held in the Western Cape in 2002 involving some 1,7 million conference days **(Annexure C).**

If an the projected demand over the next five years is assessed and assumptions are made regarding the growth in international, national and local demand, international conferences will increase from 46 in 2002 to 103 in 2009, national conference will increase from 6020 in 2002 to 7651 in 2009 and local conferences from 5355 in 2002 to 6366 in 2009. In the Cape Metropole around 42 of the conferences are international and about 5 800 national, the balance being made up of local conferences **(see Annexure D). The assumptions in respect of conference growth take a number of factors into account, such as:**

- Conference growth in South Africa as a whole (South African Association for the Conference Industry **("SAACI")** website; and
- The present low base of the conference industry in the Cape Metropole.

It is assessed that the CTICC will attract 25% of all international conferences, 6% of national conferences and 4% of local conferences in its full year of operation, i.e. 2003/2004. That means that the conference centre will host 13 international conferences in 2003/2004, increasing to 32 in 2009. National conferences will grow from 370 in 2003/2004 to 918 in 2009 and local conferences will grow from 1 382 in 2003/2004 to 2 792 in 2009.

Exhibition demand is shown in **Annexure E.** It is assumed that exhibitions would grow by 3,8 % in the second year of operation and then level off to 3,4% in Year 5. **Annexure E** indicates that, based on the assumptions made, the CTICC will host around 26 exhibitions in the first year of operation. In the first year the CTICC will attract 3 800 exhibitors and the CTICC will host exhibitions for 112 days of the year in Year 1. In Year 1 the CTICC will host 417 international exhibitions, 2 261 national exhibitions and 1 137 local exhibitions. The projected number of conferences and exhibition over a five-year period will be used to determine the economic impact.

5.3 THE ECONOMIC IMPACT

In was important to determine the level of conferences and exhibitions over the time period analysed, as that will determine conference and delegate spend that further impact on the Cape Metropole economy.

Only the economic impact of the CTICC is assessed and not that of the casino. It is assumed that casinos have a negative social impact, but that the impact of a convention centre offsets this negative impact to create a net positive impact on the economy. The licencing of a casino can be done in such a way that the obligatory development of tourism infrastructure can offset the potential negative social impact. In the case of the Cape Metropole casino operator licence the development of the convention centre was a condition to the licence.

Convention centres have developed over the years to have a significant impact on cities. Along with tourism it has the potential to add economic value to the

economic base of a city and region that often outstrips other more traditional sectors of a regional economy.

Convention centres, coupled with a strong tourism base, have the potential to revive cities and regions in an economic and urban renewal context.

The development of the CTICC will show an economic impact on a number of levels, *inter alia*:

- In addition to the direct, indirect and induced economic impact the CTICC offers clear macro-economic advantages, such as employment creation, contribution to GDP and taxation. Economic impact benefits include a generation of foreign exchange, an increase in tourist benefit nights and an increase in indirect household incomes;

- It would further result in a positive environmental and social effect, as it will transform a presently derelict part of Cape Town. The deterioration of the area around the CTICC site has emerged after the partial completion of the fly-over. In latter years the V&A Waterfront complex became an attractive and successful tourist destination, but the success of this venture had little impact on the derelict and crime ridden Cape Town foreshore area; and

- It would further have an induced investment effect in providing the “glue” that will generate synergy between conventions, exhibitions, trade shows and business development. The strong developments in the services, manufacturing and film industries of the Cape Metropole and the wider Western Cape can be advertised and reinforced in this way. It is expected that the Western Cape economy will grow faster through the development of the CTICC.

The most important contribution of the CTICC will be on employment creation, GDP and the taxation base (nationally and locally). The impact will be in both the temporary construction phase and the permanent operational phase.

Using the input-output technique discussed in **Chapter 3** this chapter illustrates how the CTICC will impact on the creation of employment opportunities, GDP, tax and the wider impact in respect of the Cape Metropole and the wider Western Cape Province. **Annexure F** provides a detailed analysis of the investment made in the CTICC and other expenditure attached to the Centre over a five-year period. The sections in this chapter explain the conference and expenditure-related assumptions made in the economic impact analysis and the calculations made on the basis of these assumptions.

The employment and GDP benefits that derive from the CTICC capital investment will originate in a direct and indirect (the latter in respect of backward and forward linkages between different industries) effect whilst it will also have a wider induced impact through the spending multiplier.

The determination of the more general and wider economic impact will be determined through the application of an economic multiplier.

The analysis used is based on an input-output model of the regional multiplier and accelerator.

The initial investment is analysed in terms of the direct and indirect (i.e. backward linkage) effect as well as the so-called induced (or spending multiplier) effect. This analysis is done taking into account both value added (or the contribution to gross domestic product (GDP) and the number of new employment opportunities created in the Western Cape.

The model developed to calculate the economic impact of the CTICC takes both the construction and operational phase into account, but place a more prominent emphasis on the operational component (net of construction) as this is where the most significant impact would occur in the long term. The model will calculate the direct and indirect (i.e. backward and forward linkage) effect as well as the induced (or spending multiplier) effect of the investment into the CTICC. This was done in respect of the value added (or contribution to the GDP) and the number

of new job opportunities created, for both the Cape Metropole and the Western Cape province.

A slightly modified version of the above model is used by deriving so-called **composite multipliers** for the industries and regions in question. These take into account *both* the inter-industry effects *and* the spending multiplier proper (i.e. k c in equation [1]). In other words,

$$\mathbf{Y\ c = k'\ c\ (\ V\ i\ c\ )} \qquad \mathbf{[2]}$$

Where

$$\mathbf{k'\ c = [\ 1 +\ V\ J\ c\ /\ V\ i\ c\ ]} \qquad \mathbf{[3]}$$

The composite multiplier, k' c, is therefore higher than the ordinary spending multiplier, k c, and the difference evidently depends on the extent of inter-industry linkages within the region.

A composite multiplier of, say, 1,9 simply means that a given investment of R 100 million will ultimately give rise to a multiplied increase in regional income of R 190 million. The latter increase comes about because of both inter-industry effects within the region and the (spending) multiplier effects arising from higher wages and profits.

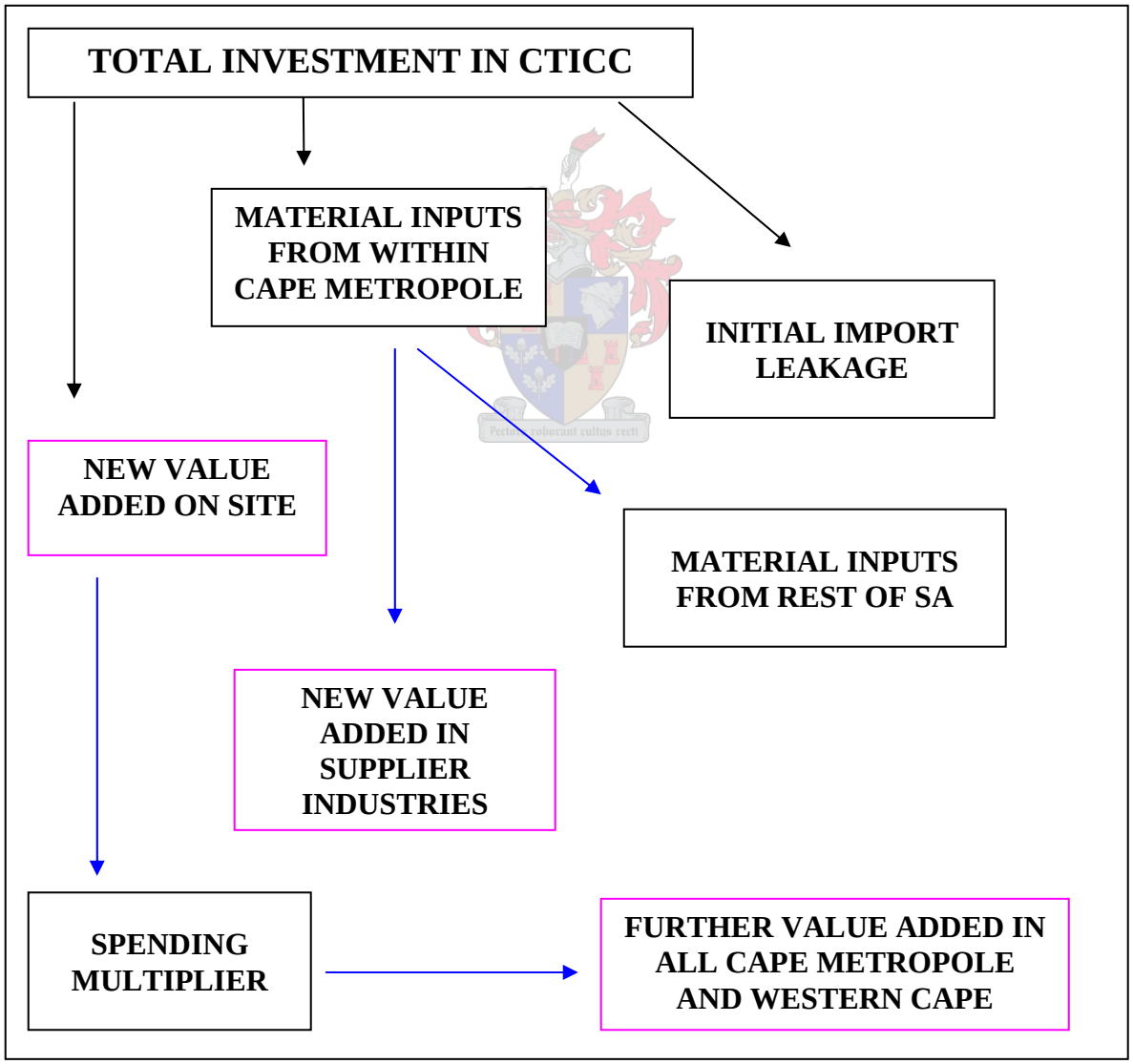
During the period prior to the opening of any complex, the principal benefits to a region will result from the **construction activity**, a temporary activity. Such benefits will accrue as a direct result of construction activity in building a project and all the ancillary facilities and also from the indirect consequence (backward and forward linkages) in respect of residential, commercial and retail developments in the Cape Metropole area.

The construction period is a temporary period and will end once the project is completed.

During the **operational phase** the ongoing economic benefits that will flow from the project will arise from a number of activities. Conference delegates will spend money on a range of services (both within the complex and in the immediate area) – in particular, accommodation, restaurants, shops, entertainment and transport – and this expenditure will directly support jobs.

Figure 5.1 demonstrates the flow of an initial investment into the CTICC during the construction and operational phase.

Figure 5.1: Flow of investment in CTICC during Construction and Operational Phase



The multiplier shows the relationship between the different forms of expenditure and its impact on the creation of income and employment in the region.

The determination of the economic benefits requires the application of the income multiplier and employment multiplier.

The extent of the income multiplier will depend almost entirely on the nature and structure of the local economy. In general, the more diverse and developed an economy of a specific region, the more linkages there will be between different forms of business in the area and therefore the greater the spillover effect of a particular investment. The economy of the Cape Metropole is well developed which means the multiplier effect will be extensive and the import linkage low.

In addition to the impact outlined above, there will be an induced, although less tangible, but nevertheless important, impact. Such impact could include:

- An expansion of the range of amenities available in the area, i.e. roads, transport and other forms of municipal infrastructure. The mere capital injection also prompts the government to increase its investment in community infrastructure;

- Improved promotion of the area around the development; and

- A significant capital injection will create positive investor perceptions in respect of the Cape Town Foreshore that degenerated into a derelict area after the construction of the fly-over bridge in the seventies.

5.4 CALCULATING THE ECONOMIC IMPACT OF THE CTICC ON THE CAPE METROPOLE AND WESTERN CAPE

The calculation of the CTICC on the Western Cape and Cape Metropole economy will be done in terms of the theory discussed in **Chapter 3** and in **Section 5.3**, i.e. in terms of the composite multiplier. The economic impact will be

calculated in two phases of the development, i.e. the economic impact during the construction period on the economy of the Western Cape and the Cape Metropole as well as the economic impact during the operational phase of the development.

The economic impact of the investment into the CTICC will be done in respect of the capital investment and the spending that will occur as a result of the investment and the effective impact thereof on the GDP and employment.

5.4.1 Assumptions Used in the Determination of the Income and Employment Multiplier

The selection of appropriate and relevant multipliers is problematic, because limited comparative research data is available in South Africa on **capital-intensive projects** such as the CTICC. The former Centre for Economic Advisory Services **("CEAS")** devised an input-output model for South Africa, which calculates the income and employment multipliers for various industries.

Although the multiplier developed by CEAS have been developed some time ago, it is widely believed that they are still relevant and can be effectively utilised for this kind of capital injection.

A review of other economic impact studies in the Cape Metropole and Western Cape, such as the Economic Impact Analysis of the Kudu Natural Gas project by the African Institute for African Policy and Regional Integration **("AIPA")** - October 2000 and a Wesgro Multiplier Study were used as a guide.

5.4.1.1 The Multiplier (during <u>construction</u>)

Western Cape:

The CEAS's construction **income multiplier** is 1,60562 (CEAS, 1996). The size of multiplier varies according to the level of economic development in an area.

Although the Western Cape features prominently in South Africa, it is not the economic powerhouse of South Africa and therefore a proportion of leakage occurs to other parts of the South African economy out of the Western Cape economy. Given that most of the inputs required in respect of construction can be sourced within the Western Cape, it is assumed that the income multiplier is 90% of the national multiplier, and an income multiplier of 1,55 is applied during the construction period.

The CEAS' **employment multiplier** for construction is 31,93 (CEAS,1996) (i.e. every R1 million in 1996 of direct expenditure, supports 31,93 employment opportunities. Taking into account the adjustment for the average inflation rate of 9% over the past 8 years, the employment multiplier for construction will be 14.39 in 2003. It is assumed that the Western Cape employment multiplier (construction) is 40% of that for the country as a whole, i.e. 6,3, which means that 6 temporary employment opportunities are created for every R1 million spent during the construction period. It is generally accepted in the Western Cape construction industry that R1 million spent on a project of this nature will create around 6,0 temporary jobs as a direct result of the project.

The Cape Metropole

The Cape Metropole is very integrated with the greater Western Cape region. The Cape Metropole is also the dominant economic contributor to the Western Cape economy. It is therefore assumed that the income multiplier for the Cape Metropole is 95% of the Western Cape income multiplier, i.e. 1,52.

95% Of all employment opportunities during the construction phase was filled from within the local population and an employment multiplier for the Cape Metropole of 6,0 is assumed (95% of that of the Western Cape).

5.4.1.2 The Multiplier (during the operational phase)

The Western Cape Province

The CEAS national gross domestic product (or income) multiplier for trade and accommodation is 1,68482 (CEAS,1996); i.e. for every one Rand of trade and accommodation expenditure, an additional 68,5 cents of income is generated. As a proportion of leakage occurs to other parts of the South African economy out of the Western Cape economy, the assumption is made therefore that the income multiplier of the Western Cape is approximately 95% of that of the country as a whole, i.e.1.65.

The CEAS national employment multiplier for South Africa in 1996 is 26,0232 (CEAS, 1996), i.e. for every R1 million (in South African Rand) of direct expenditure, 26,02325 jobs are created. Due to the time value of money the employment multiplier is reduced with inflation to 12.18 in 2003 – for every R1 million (in 2003 Rand) of direct expenditure, 12,18 jobs are created. As in the case of the construction phase, it is assumed that the Western Cape's employment multiplier is 40% of that for the country as a whole, i.e. 5.47.

The Cape Metropole area:

The Cape Metropole is very integrated with the greater Cape Town and the Western Cape region. The Cape Metropole is also the dominant economic contributor to the Western Cape economy. It is therefore assumed that the income multiplier for the Cape Metropole will be 90% of the Western Cape multiplier, i.e. 1.59.

Following a similar logic, it is estimated that 80% of all jobs related to the project will be filled from the local population and an employment multiplier for the study area of 4.6 has therefore been used.

Both of these multipliers are in respect of the **ongoing operations** of the project.

5.4.2 Capital Expenditure During the Construction Phase

The management, based on the calculations made by the professional team has provided the development cost of the CTICC during the construction phase. This cost is set at R540 million. No finance charges is included as the land on which the Centre is built was donated by the Cape Town Unicity and the development cost consists of a contribution made by the Cape Metropole casino licence holder, Grandwest (Pty) Ltd (in terms of the conditions attached to the licence), and contributions made by the Cape Town Unicity and the Provincial Administration of the Western Cape.

The construction of the CTICC occurred over a two-year period.

An interview with the project manager of the CTICC indicated that 30% of the initial capital investment of R540 million (i.e. R162 million) was lost in the form of initial capital and material imports from the rest of the world. Of the remaining R378 million, R200 million will consist of value added by new workers on the CTICC site itself, while a further R132 million will be used to acquire material inputs from supplier industries within the Western Cape. The remaining R46 million will be spent on acquiring inputs from the rest of South Africa. The conditions attached to the casino operator licence were of such a nature that a significant portion of material had to be obtained in the Cape Metropole and the rest of the Western Cape.

The **direct effect** in the Cape Metropole (i.e. the value added by new workers on the CTICC) comes to R200 million. The value added represents only 37% of the total initial investment of R540 million, with the rest either being spent on imports from abroad or on materials inputs acquired from within the Cape Metropole and from the rest of South Africa. Construction experts in the Cape Metropole estimate that for every R1 million spent in similar construction projects between 6 and 7 jobs were created as a direct result of the project. For the purpose of this study a figure of 6 is used, which results in a number of new employment opportunities created in the total of 1200.

The construction of the CTICC also had a backward linkage effect within the Western Cape itself. Although the CTICC purchased approximately R178 million worth of material from suppliers in the Western Cape, only approximately R132 million represents value added, with the remainder (R46 million) being used to acquire further inputs from the rest of South Africa. This results in the indirect impact of the investment amounting to R132 million. Using the ratio in respect of employment creation, it will lead to the creation of 792 temporary employment opportunities during the construction phase.

In summary, the **direct and indirect** effect of the capital investment into the CTICC will have the following result in terms of the value added in GDP and the increase in employment:

Table 5.2: Summary of Direct and Indirect impact on GDP and employment in the Cape Metropole during the Construction Phase Through an Initial Capital Injection of R504 million

CAPE METROPOLE		
Value added/Increase in GDP	Direct	R200 million
Increase in Employment (numbers)		1 200 employment opportunities
Value added/Increase in GDP	Indirect	R132 million
Increase in Employment (numbers)		792 employment opportunities
Total value added/increase in GDP		**R332 million**
Total increase in Employment (numbers)		**1992 employment opportunities**
WESTERN CAPE		
Value Added/increase in GDP	Direct and Indirect	R46 million
Increase in Employment (numbers)		276 employment opportunities

The direct and indirect increases in income and spending in the Western Cape and the Cape Metropole both have a further **induced** impact. This impact is based on the direct and indirect impact of R200 million and R132 million respectively, i.e. a total of R332 million. This impact is calculated in **Annexure F.** The income and employment multiplier used in this calculation is outlined in **5.4.1.1 and 5.4.1.2.**

5.4.3 Summary of the Direct, Indirect and Induced Economic Impact during the Construction Period

Section 5.4.2 and **Table 5.1** provides a summary of the direct, indirect and induced economic impact on the economy of the Cape Metropole of a capital expenditure of R540 million into the CTICC during the construction period. The economic impact is in respect of the value added in terms of GDP and the number of employment opportunities created. **Annexure F** takes the calculation of the economic impact further and provides a detailed calculation of the induced impact of the direct and indirect expenditure during the construction period. **Table 5.3** expands on **Table 5.2** by including the induced impact, which is arrived at by applying the estimated spending multiplier for the Cape Metropole to the direct and indirect components of the total impact.

Table 5.3 sets out the total impact of the capital expenditure into the CICC, i.e. direct, indirect and induced impact.

Table 5.3: Summary of Direct, Indirect and Induced impact on GGP and employment in the Cape Metropole during the Construction Phase Through an Initial Capital Injection of R504 million

CAPE METROPOLE		
Value added/Increase in GDP	Direct	R200 million
Increase in Employment (numbers)		1 200 employment opportunities
Value added/Increase in GDP	Indirect	R132 million
Increase in Employment (numbers)		792 employment opportunities
Value added/Increase in GDP	*Induced*	*R503 million*
Increase in Employment (numbers)		*2021 employment opportunities*
Total value added/increase in GDP		**R835 million**
Total employment opportunities created		**4013 employment opportunities**
WESTERN CAPE		
Value Added/increase in GDP	Direct and Indirect	R46 million
Increase in Employment (numbers)		276 employment opportunities
Value added/Increase in GDP	*Induced*	*R512 million*
Increase in Employment (numbers)		*2110 employment opportunities*
Total value added/increase in GDP		**R558 million**
Total employment opportunities created		**2386 employment opportunities**

The construction of the CTICC will also result in spending streams resulting from conference delegates in respect of conference fees, catering fees and expenditure on tourism before and after a conference or exhibition. The calculation of this operational expenditure is also calculated in **Annexure F** through a composite multiplier.

5.4.4 Expenditure During the Operational Phase

The expenditure in respect of conferences relates to the following elements:

Gross Revenue of the Operating Company

The gross revenue expended includes expenditures in respect of conference rental fees, exhibition space rental fees and catering services. These expenditures are reflected in the business plan income statement of the CTICC. This amount has been included as gross revenue of the operating company in the economic impact study.

Other Forms of Expenditure During Operational Phase

Assumptions in respect of this expenditure are outlined in **Page 1 - 6** of **Annexure F**. **Section 3** outlines the total expenditure of the following categories:

- **Total Direct Expenditure by International, Domestic and Local Delegates**

The calculation includes the total number of international, domestic and local delegate days attributable to the CTICC and the average spend per international, domestic and local delegate per day. The average spend of these delegates has been extrapolated from the spends determined in a study on the conference industry, commissioned by South African Tourism in 2000. **Section 4** includes the total expenditure per day of international, domestic and local delegates.

The number of international, national and local conference delegates has been taken from the demand and supply analysis, as shown in **Annexure D.**

- **International, Regional and Domestic Exhibitor spend**

Section 5 of the economic impact study outlines the assumptions in respect of the following expenditure:

- International exhibitor spend **(5.1)**;
- International exhibitor stand expenditure **(5.2)**;
- Domestic exhibitor spend **(5.3)**;
- Domestic exhibit stand expenditure **(5.4)**;
- Local exhibition spend **(5.5);** and
- Local exhibit stand expenditure **(5.6)**.

The number of exhibitions, internationally, domestically and locally, has been taken from **Annexure E**, which is an analysis of the projected exhibition demand for the CTICC.

The average spend of these delegates has been extrapolated from the spend determined in a study of the impact of the conference industry, commissioned by South African Tourism in 2000.

The calculation of the operational expenditure by conference and exhibition delegates is detailed on pages 1 to 6 of **Annexure F.**

- **Expenditure on Pre- and Post-conference Tours in the Cape Metropole**

Section 6 of Annexure F indicates the assumptions in respect of the expenditure on pre-and post-conference tours in the Cape Metropole. The assumptions made are on the basis of present conference trends in the Cape Metropole. Tourist expenditure was taken from the South African Tourism International and Domestic Survey commissioned in 2000.

- **Tourism and Tourist Expenditure**

One of the most important objectives of the CTICC will be the promotion of tourism to the Western Cape and the Cape Metropole. ICCA research (ICCA

website) indicates that it is a general international trend that delegates to a specific conference in a specific city return to the city at some later date as tourists and will include members of their families and friends in a touring party.

To calculate the possible expenditure impact of such tourists on the economy of the Cape Metropole a number of assumptions were made. See **Section 7 of Annexure F**. An assumption has been made to encapsulate the percentage of delegates that will return once in a four-year period after attending a conference or exhibition. In this respect an assumption of 30% were made. South African Tourism indicates in their 2000 International and Domestic Tourist Survey that the typical tourist party consists of 2.5 people and the average stay will be 17 days.

An assumption is also made in respect of the number of return tourists after attending a conference and visiting Cape Town once as a tourist. It is assumed that 25% of conference delegates will visit Cape Town for a second time as a tourist and will stay in the Cape Metropole for 10 days. The travel party is assumed to consist of 2 people.

The tourist traffic that the project will generate will benefit not only the proposed venue, but also most of the other tourist attractions and facilities in the area. It is expected that the increased marketing of the Cape Metropole area and its wide range of attractions, as well as the actual increase in visitors to the area patronising the venue, will result in significant increases in patronage of other tourism facilities and attractions in the area. Tourism facilities such as restaurants, hotels, etc should all enjoy increased visitor levels and therefore increased revenue and profits.

The stimulus for such tourism will provide opportunities for small entrepreneurs to enter the industry, as well as provide further employment (already factored into the employment totals) in the Cape Metropole area.

The World Tourism Organisation **("WTO")** defines a tourist as a person who spends at least one night away from home. Persons that visit tourist attractions during the day, but return to their homes at night, are defined as day-trippers. Only the international and national conference delegates that stay at overnight accommodation establishments or with family and friends, are therefore "real" tourists.

However, as day-trippers or local conference delegates from outside and inside the study area will spend money in the Cape Metropole area, but outside the proposed venue, we have included these local conference delegates in our economic impact calculations.

According to the analysis, the CTICC will attract some 8 636 delegates to international conferences and 64 961 delegates to domestic conferences in year 1 of operation, increasing to 16 727 and 127 764 delegates respectively by year 5 of operation.

If it is assumed that all the delegates to the international and national conferences are "out-of-town" delegates (local delegates are captured in the "local" component) it can be stated that due to the development of the CTICC, accommodation establishments in the Cape Metropole area will sell an additional 73 597 (international 8 636 and domestic 64 961) bed nights in year 1 of operation. This figure will increase to 16 727 international bednights and 127 764 domestic bednights in year 5 of operation. Also see **Section C** of **Annexure F**, page 9 and 10. These additional bed nights are sufficient to fill a 200-room hotel to capacity, if it is assumed that the bed nights are spread evenly throughout the year and that there is no double occupancy of rooms.

In practice some delegates to international and national conferences will come from within the Cape Metropole area and will not require any accommodation. Also demand for bed nights will peak with larger national events when higher levels of room capacity will be required, and therefore demand will not be evenly spread.

Direct and indirect jobs created as a result of the proposed project will be in all industries and we have, therefore, used the Department of Labour market by skills level, to determine how many jobs the project creates for each skill level. According to the Department of Labour, 18% of all jobs are high-level occupations, 31% are mid-level occupations and 51% are semi-skilled and unskilled occupations.

The average salaries for the construction industry according to the Statistics South Africa's labour statistics were applied. The average salary per skill has been extrapolated using the projected inflation rate.

In calculating the projected tax revenue that will be generated by the proposed project, the following assumptions were made:

- 80% of indirect spend is subject to VAT input tax credits;
- 10% of the total direct and indirect spending will become taxable corporate profits and the average corporate tax rate will be 30%;
- the average employee's personal tax rate varies from 23% for high level occupations to 18% for mid-level, semi-skilled and unskilled occupations;
- the rate of VAT is 14%; and
- RSC levy on payroll is 0,35% and on turnover of corporations is 0,14%.

5.4.5 Summary of the Impact of Conference, Exhibition and Tourism Expenditure during Operational Period

The impact of conference and exhibition delegate expenditure during the operational phase on the GDP, employment and tax generation and the impact of such expenditure on the tourism industry are calculated in **Annexure F**. In these calculations a composite multiplier is used. This multiplier takes into account both the inter-industry effects and the spending multiplier. The application of a composite multiplier will have its effect on GDP, tax and employment levels during the construction period.

Table 5.4: Summary of the Direct, Indirect and Induced Economic Impact during the Operational Period

Cape Metropole	**03/04**	**04/05**	**05/06**	**06/07**	**07/08**
High level occupations	298	383	476	571	674
Mid-level occupations	511	658	816	978	1156
Semi-skilled and unskilled occupations	844	1083	1347	1615	1908
Total Number of employment opportunities	1653	2126	2639	3164	3738
Contribution to GDP ('000)	498 595	639 972	796 002	955 299	1 127 605
Western Cape					
High level occupations	249	320	398	477	564
Mid-level occupations	428	549	683	818	967
Semi-skilled and unskilled occupations	706	906	1127	1351	1596
Total Number of employment opportunities	1383	1755	2208	2647	3127
Contribution to GDP ('000)	478 943	614 748	764 6276	916 685	1 083 160

Annexure F shows that during the operational period the CTICC will create 1653 employment opportunities in the first year of operation, increasing to 3738 in the Year 5 of operation in the Western Cape. In the Cape Metropole the CTICC will create 1383 employment opportunities in year one, increasing to 3127 in the fifth year of operation.

An application of the skills breakdown shows that the majority of employment opportunities will be in the semi-skilled and unskilled markets, which constitutes the largest segment of employment in the South Africa and the Western Cape. Given the low level of employment amongst the semi-skilled and unskilled labour market, it is particularly important to create employment at these levels.

During the first year of operation the CTICC will have an impact of around R499 million in the Western Cape of which R479 million will be in the Cape Metropole area.

The CTICC will contribute an estimated R72 million in tax revenue to government in the first year of operation, rising to R174 million by the fifth year of operation. The national government will receive almost all of the tax revenue generated, while the local Cape Metropole government will receive the income from RSC levies.

5.4.6 Induced Investment Effect on Other Growth Industries in the Western Cape

The construction of the CTICC will further enhance the development of well-established industries in the Western Cape, and particularly the Cape Metropole. The CTICC will host a range of conferences that will bring new ideas and technology to the doorstep of the Cape Metropole. It will provide support to new predominantly high technology and knowledge based industries. It is not possible to quantify such impact, but the mere fact that conventions take up time out of the diaries of top executives and businessmen shows that conventions would not be held if the transfer of knowledge and technology would not make it worthwhile. Industries that will benefit the most will be industries in their infant stage that do not have the means to get access to international technology and ideas.

Business moves in specific life cycles that allow it to mature to a point of success and maturity. Kotler (1997:81) describes four phases to the life cycle of particular industries, namely:

- **Introduction** – a period of slow sales as the product is introduced into the market; little profit is achieved;
- **Growth** – a period of acceptance in the market and steadily increasing profits;
- **Maturity** – when the market acceptance of the product sales reaches a plato and may even decline as new competitors follow the recipe of success; and
- **Decline** – competition forces sales and profits to drop.

Not all industries will follow the above-mentioned cycle, but most industries launching a new product are likely to follow this trend.

The Western Cape and particularly the Cape Metropole show a number of industries that are in the growth phase. It is these industries that will benefit through the exchange of ideas and technology that will be transferred through particularly international conventions.

The Western Cape economy is dominated community services (19.4% contribution to the gross regional product in 2003), manufacturing (18% contribution to gross regional product in 2003), transport (11% contribution in 2003), finance (27% contribution in 2003) and agriculture (5% contribution in 2003) (Wesgro website). It will be important to expand the economic base of the Western Cape economy, as this will make the economy less vulnerable to external shocks.

The following industries show the most potential to benefit significantly through the CTICC and particularly through the exchange of high-tech technology and ideas:

- Tourism:
- Transport;
- Communication;

- Financial services; and
- Business services.

The construction of the CTICC will be to the benefit of those industries that are maturing and are destined for growth. The Western Cape is increasingly showing the signs of a service-based economy. Industries such as the growing film industry, financial and business services and the chemical industry are likely to benefit significantly through the construction of the CTICC.

The ability of executives and other employees of local Western Cape businesses that are in the maturing phase of its business life-cycle to convene with players across the globe in a convention environment and interact within their areas of expertise in a specialised forum will provide an additional impetus to the growth of these industries.

The linkage of the present historic, but derelict Cape Town foreshore with the highly successful V&A Waterfront through the Roggebaai Canal, also a direct outflow from the Cape Metropole casino operator licence, will make the Cape Foreshore a “must-see” and “must-experience” attraction. The effect of this will be felt in employment creation, a larger tax base, a significant contribution to the GDP of the Cape Metropole and the wider Western Cape, foreign exchange creation and direct tourist revenues. The CTICC is not only about conventions and exhibitions, but also about the “glue” and synergy that will pull a number of emerging industries together.

5.4.7 Possible Displacement Effect of the Development of the CTICC

Although the Cape Metropole has lost significant convention business over the last number of years due to the lack of a large, state-of-the-art, high-tech convention centre, it is also quite clear that all of the projected business of the CTICC would, while it generates new business for the CTICC, not necessarily be new business to the existing convention industry in the Cape Metropole and the

larger Western Cape. The CTICC will be without any doubt a major competitor for existing conference venues in the Western Cape and Cape Metropole. It is only logical that some sort of allowance be made for such possible displacement effects.

It is projected that the CTICC will be targeting the international convention and exhibition market. It is also fair to assume that the average daily delegate prices for international conventions and exhibitions will be marginally higher than those for other venues in the Western Cape. It is also common cause that specific venues will lend it to specific target markets and types of conferences and exhibitions.

Interviews with convention and exhibition experts indicated that the following displacement effect could be expected (**See Table 5.5**):

Table 5.5: Assumed Displacement Effects

Event	**Western Cape**	**Cape Metropole**
Large one-day events	60%	5%
International conferences	20%	5%
Multi-day national conferences	15%	20%
Meetings	10%	60%
Other events, i.e. launches	30%	60%
Exhibitions	40%	30%
Average	**29%**	**30%**

The percentages in the above-mentioned table are interpreted as the quantity of existing business that will be competed away from other conference centres in the Western Cape and the Cape Metropole. The difference is the estimated amount of new business that will be created by the new convention centre.

The average estimates for the convention and exhibition business are a 29% displacement across the entire Western Cape and 30% in the Cape Metropole. In other words, 71% of the convention centre business will be new business to the Western Cape and 70% to the Cape Metropole.

It is projected that hotel displacement in the Cape Metropole will be low as hotels are expected to enjoy higher occupancy levels due to the stream of convention and exhibition delegates that are likely to overnight in Cape Town or the larger Cape Metropole. Displacement is also likely from centres such as the Durban International Convention Centre, although it is foreseen that convention centres will compete for different sectors in a market that grows significantly worldwide and in South Africa.

According to SAACI (SAACI website) the international conference market is worth an estimated US$90 billion per annum and growing at between 8% and 10% per annum.

CHAPTER 6

CONCLUSION

The legalisation of gambling was seen by the guardians of the social structure as a setback for an already brittle society in which the buying power of the average family is under continuous pressure due to inflation, volatility of the Rand, unemployment, etc. Gambling was therefore seen as an industry that will further reinforce economic depravation amongst the less privilege in South Africa. Although little research has been done in South Africa, surveys done do indicate that gambling is growing amongst the poor in South Africa and that the negative social impact in certain parts of the society is clear.

Many politicians worldwide, which are also policymakers, and gambling operators always shy away from the negative social impact and will motivate the construction of a casino (more than often within easy reach of poor communities) by saying that one should not forget the positive impact of a casino through casino related employment creation, contribution to the GDP and employment creation. Little research in South Africa has been done in South Africa to determine whether casinos create a net negative impact or a net positive impact, partly because it is very difficult to quantify the negative social impact (as was done in the survey done by the Australian productivity Commission).

The allocation of five casino operator licences in terms of national legislation to the Western Cape was seen by many, in many cases rightly so, as the start of a downward economic spiral, not an upward one. The challenge was to use these licences, particularly the Cape Metropole licence, as a tool for economic development, particularly tourism infrastructure, that in a developing economy such as the Western Cape is unlikely to originate within government budgets due to other priorities, such as housing and health. Such projects are also unlikely to be initiated by the private sector due to a poor return on investment. Convention

Centres worldwide are known as “loss-leaders” (interview with Dirk Elzinga, Managing Director of the CTICC) and are mostly seen as successful at a break-even point. Based on a no-debt scenario (i.e. the carried cost is carried through government funding or private sector contributions) convention centers show a low internal rate of return.

The Western Cape was quite clear in its invitation to casino developing companies that only casino bid applications that include significant tourism infrastructure will be considered. This stipulation was a stringent condition as it meant that casino development companies had to include non-casino related developments that would make a significant impact on the eventual profitability of the casino. In short, casino development companies realised that the winning bid for a very lucrative casino operator licence in the Cape Metropole was only going to come at a “price”. It meant that casino operator companies had to dig much deeper to satisfy the Western Cape stringent conditions.

The Cape Metropole casino operator licence was seen as a tool or mechanism to add economic value to the Western Cape economy, which is unlikely to happen with a stand-alone casino. It was realised that something had to be done to offset an accepted negative social impact to ensure that will be no doubt about the net economic impact. The allocation of a casino operator licence became an opportunity for development not at all related to gambling. The positive economic impact of the development of the CTICC as the result of the allocation of a casino operators licence to a company that committed itself in its bid application to the development of the CTICC was motivated by the objective of compensating for the negative social effect of a casino.

As the Cape Metropole has become popular as a conference destination since 1994, most casino bid applications in the Cape Metropole included some sort of conference centre. The RFP did not mention the need for a conference centre, but indicated that sustainable tourism infrastructure proposals will add to the merits of a casino bid application.

The inclusion of a significant monetary contribution to the construction of a convention centre by the Grandwest proposal certainly contributed to the decision to allocate the licence to Grandwest. This contribution prompted the City of Cape Town and the Provincial Administration of the Western Cape to add to the capital already made available to construct a larger centre that are more in line with conference demand in the Cape Metropole.

The capital expenditure on the CTICC and the projected expenditure in respect of conferences and exhibitions will result in a much wider economic impact than the impact created in respect of a casino development alone. It is debatable whether an investment in a casino will create a net economic impact, as limited research has been done to quantify the negative social impact of a casino. There is no doubt though that the development the CTICC in Cape Town has led to a net economic impact as the there is, other than a potential displacement impact, no negative impact associated with the CTICC.

It is common cause that the development of casinos worldwide has led to significant economic deprivation, particularly in emerging economies, such as South Africa. Although the legalisation of gambling in South Africa led to a proliferation of casino developments and widespread negative social consequences, the negative social impact was not only offset by employment opportunities, contribution to GDP and tax generation, but mostly the development of the offsite CTICC that has the potential to completely off-set the negative social impact of gambling, particularly through the impact on GDP and employment opportunities through the development of the CTICC. The policy was quite clear in the Western Cape, i.e. there will be no allocation of a casino operator licence if casino bids do not include significant tourism infrastructure. The effect of this policy will be seen in the medium to long terms through conference and exhibition and its effect on employment, GDP, tax generation and tourism. The negative impact of gambling, an unfortunate phenomenon, will be offset by the impact of the CTICC.

The negative impact of gambling is not disputed, but accepted. The challenge was to show that a regulatory authority could utilise its powers to enforce development that will offset this negative social impact as far as possible by creating tourism infrastructure and a positive economic impact. Very few regulatory authorities has achieved this and it provides a strong case in point not to only legalise gambling, but to use it as an opportunity and to create infrastructure that is unlikely to occur in any other set of circumstances.

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CAPE TOWN INTERNATIONAL CONVENTION CENTRE
Exhibition Demand

1. Number of Exhibitions pa	Number of Stands				Total	Growth
	1 - 9	10 - 24	25 - 49	50+		
Year 1	7	9	5	5	26	
Year 2	7	9	5	5	27	3.8%
Year 3	8	10	5	5	28	3.7%
Year 4	8	10	6	6	29	3.6%
Year 5	8	10	6	6	30	3.4%
Average Number of Stands	7	21	40	65		

2. Number of Stands pa	1 - 9	10 - 24	25 - 49	50+	Total
Year 1	49	189	200	325	763
Year 2	51	196	208	337	792
Year 3	53	203	215	350	821
Year 4	55	211	223	362	851
Year 5	57	218	231	375	880
Exhibitors per Stand	5	5	5	5	

3. Number of Exhibitors pa	1 - 9	10 - 24	25 - 49	50+	Total
Year 1	245	945	1,000	1,625	3,815
Year 2	254	981	1,038	1,687	3,960
Year 3	264	1,017	1,076	1,749	4,106
Year 4	273	1,054	1,115	1,812	4,254
Year 5	283	1,090	1,153	1,874	4,399

4. Avg Length of Exhibition	1 - 9	10 - 24	25 - 49	50+
Year 1	3	4	5	6
Year 2	3	4	5	6
Year 3	3	4	5	6
Year 4	3	4	5	6
Year 5	3	4	5	6

5. Number of Exhibitor Days	1 - 9	10 - 24	25 - 49	50+	Total
Year 1	735	3,780	5,000	9,750	19,265
Year 2	763	3,924	5,190	10,121	19,997
Year 3	791	4,069	5,382	10,495	20,737
Year 4	820	4,215	5,576	10,873	21,483
Year 5	848	4,359	5,765	11,242	22,214

6. Number of Exhibition Days	1 - 9	10 - 24	25 - 49	50+	Total
Year 1	21	36	25	30	112
Year 2	22	37	26	31	116
Year 3	23	39	27	32	121
Year 4	23	40	28	33	125
Year 5	24	42	29	35	129

CAPE INTERNATIONAL CONVENTION CENTRE
Exhibition Demand

7. Exhibitor Breakdown	1 - 9	10 - 24	25 - 49	50+
International	3.0%	7.0%	10.0%	15.0%
National	70.0%	63.0%	60.0%	55.0%
Local	27.0%	30.0%	30.0%	30.0%
	100.0%	100.0%	100.0%	100.0%

8. Stand Breakdown	Year 1	Year 2	Year 3	Year 4	Year 5
International	83	87	90	93	96
National	452	469	487	504	521
Local	227	236	245	254	262
Total	763	792	821	851	880

9, Exhibitor Breakdown	Year 1	Year 2	Year 3	Year 4	Year 5
International	417	433	449	465	481
National	2,261	2,347	2,433	2,521	2,607
Local	1,137	1,180	1,224	1,268	1,311
Total	3,815	3,960	4,106	4,254	4,399

10. Exhibitor Days Breakdown	Year 1	Year 2	Year 3	Year 4	Year 5
International	2,249	2,335	2,421	2,508	2,593
National	11,258	11,686	12,119	12,555	12,982
Local	5,757	5,976	6,197	6,420	6,639
Total	19,265	19,997	20,737	21,483	22,214

CAPE TOWN INTERNATIONAL CONVENTION CENTRE

ECONOMIC IMPACT OF THE CAPE TOWN INTERNATIONAL CONVENTION CENTRE

A. ASSUMPTIONS

1 Multipliers

National income multiplier during operations	1.68	for every R1 of expenditure
Assumed income multiplier during operations for the Western Cape	1.65	"
Assumed income multiplier during operations for the Cape Me e Metrople	1.59	"
National income multiplier during construction	1.61	for every R1 of expenditure
Assumed income multiplier during construction for Western Cape	1.55	"
Assumed income multiplier during construction for the Cape Metropole	1.52	"
National employment multiplier during operations	12.18	jobs for each R1 million of direct expenditure
Assumed employment multiplier during operations for Western Cape	5.47	"
Assumed employment multiplier during operations for the Cape Metropole	4.58	
National employment multiplier during construction	14.39	jobs for each R1 million of direct expenditure
Assumed employment multiplier during construction for Western Cape	6.36	"
Assumed employment multiplier during construction for the Cape Metropole	6.09	"

2 Development Cost (Direct and Indirect Component)

(No loans applicable; development cost financed through Sun International, PAWC and Cape Town Unicity contributions)

	R'000	
Year -2	0	
Year -1	332000	Direct and Indirect increases in spending and income in the Cape Metropole
Total	332000	

A. ASSUMPTIONS

3 Total Additional Expenditure

			(construction period)		*(full time operations period)*				
			2001/2	**2002/3**	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
			R'000	R'000	R'000	R'000	R'000	R'000	R'000
Gross conference and conference catering revenue (I.e. expenditure in conference centre)		***** Per CTICC**			**52451**	**61670**	**71613**	**78102**	**85260**
Gross exhibition revenue (I.e. expenditure in conference centre)					**267**	**285**	**304**	**323**	**343**
Total International Exhibition Stand Expenditure	5.2				29	31	33	35	37
Total Domestic Exhibition Stand Expenditure	5.4				158	169	180	192	203
Total Local Exhibition Stand Expenditure	5.6				79	85	91	97	102
Expenditure by international delegates during conference					**6363**	**8456**	**10619**	**12901**	**15476**
Expenditure by domestic delegates during conference					**30914**	**39371**	**50738**	**63222**	**75330**
Expenditure by local delegates during conference					**3100**	**4230**	**5083**	**6474**	**6506**
Expenditure by international exhibitors during exhibitions	5.1				**2204**	**2437**	**2692**	**2949**	**3270**
Expenditure by domestic exhibitors during exhibitions	5.3				**9941**	**10990**	**12137**	**13285**	**14747**
Expenditure by local exhibitors during exhibitions	5.5				**241**	**266**	**294**	**325**	**357**
Expenditure by international delegates on pre- and post-conference tours					**14051**	**18675**	**23540**	**28598**	**34423**
Expenditure by domestic delegates on pre- and post-conference tours					**22661**	**28861**	**37390**	**46589**	**55778**
Tourist spend (international second time spend)					**114843**	**152629**	**192396**	**233733**	**281339**
Tourist spend (international third time spend)					**45036**	**59855**	**75450**	**91660**	**110329**
					302073	**387726**	**482256**	**578160**	**683157**

4 Expenditure by Visitors to the Cape Town Convention Centre

	(construction period)			*(full time operations period)*			
	2001/2	**2002/3**	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
Number of international delegate days			8,636	10,777	12,871	14,682	16,727
Number of domestic delegate days			64,961	77,683	95,883	112,183	127,764
Number of local delegate days			27,454	35,175	43,265	51,738	53,031
Total Number of delegate days attributable to the Cape Town Convention Centre			101,051	123,635	152,019	178,603	197,522

Conference Expenditure:

Average expenditure per international delegate in the Cape Metropole

Inflation per annum	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Avg. expenditure on accommodation	R 450	R 479	R 510	R 544	R 579	R 617	R 657
% Spent in the Cape Metropole area	80%	80%	80%	80%	80%	80%	80%
Avg. expenditure on meals & beverage	R 150	R 160	R 263	R 280	R 263	R 280	R 263
% Spent in the Cape Metropole area	90%	90%	30%	30%	30%	30%	30%
Avg. expenditure on transport	R 50	R 53	R 57	R 60	R 64	R 69	R 73
% Spent in the Cape Metropole area	80%	80%	80%	80%	80%	80%	80%
Avg. expenditure on entertainment, shopping, etc	R 200	R 213	R 227	R 242	R 257	R 274	R 292
% Spent in the Cape Metropole area	90%	90%	90%	90%	90%	90%	90%
Average expenditure per international delegate in the Cape Metropole	**R 715**	**R 761**	**R 737**	**R 785**	**R 825**	**R 879**	**R 925**

	(construction period)			*(full time operations period)*			
	2001/2	**2002/3**	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
Average expenditure per domestic delegate in the Cape Metropole							
Inflation per annum	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Avg. expenditure on accommodation	R 300	R 320	R 340	R 362	R 386	R 411	R 438
% Spent in the Cape Metropole	80%	80%	80%	80%	80%	80%	80%
Avg. expenditure on meals & beverage	R 125	R 133	R 263	R 280	R 263	R 280	R 263
% Spent in the Cape Metropole	90%	90%	30%	30%	30%	30%	30%
Avg. expenditure on transport	R 25	R 27	R 28	R 30	R 32	R 34	R 36
% Spent in the Cape Metropole	80%	80%	80%	80%	80%	80%	80%
Avg. expenditure on entertainment, shopping, etc	R 100	R 107	R 113	R 121	R 129	R 137	R 146
% Spent in the Cape Metropole	90%	90%	90%	90%	90%	90%	90%
Average expenditure per domestic delegate in the Cape Metropole	**R 463**	**R 493**	**R 476**	**R 507**	**R 529**	**R 564**	**R 590**
Average expenditure per local delegate in the Cape Metropole							
Inflation per annum	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Avg. expenditure on accommodation	R 0	R 0	R 0	R 0	R 0	R 0	R 0
% Spent in the Cape Metropole	100%	100%	100%	100%	100%	100%	100%
Avg. expenditure on meals & beverage	R 0	R 0	R 263	R 280	R 263	R 280	R 263
% Spent in the Cape Metropole	100%	100%	30%	30%	30%	30%	30%
Avg. expenditure on transport	R 30	R 32	R 34	R 36	R 39	R 41	R 44
% Spent in the Cape Metropole	100%	100%	100%	100%	100%	100%	100%
Avg. expenditure on entertainment, shopping, etc	R 0	R 0	R 0	R 0	R 0	R 0	R 0
% Spent in the Cape Metropole	100%	100%	100%	100%	100%	100%	100%
Average expenditure per local delegate in the Cape Metropole	**R 30**	**R 32**	**R 113**	**R 120**	**R 117**	**R 125**	**R 123**

5 Exhibition Expenditure

5.1 International Exhibitor Spend

Average spend per day

Inflation		6.5%	6.5%	6.5%	6.5%	6.5%
Accommodation		R 450	R 479	R 510	R 544	R 579
Meals and Beverage		R 150	R 160	R 170	R 181	R 193
Transport		R 50	R 53	R 57	R 60	R 64
Entertainment		R 10	R 11	R 11	R 12	R 13
Shopping		R 50	R 53	R 57	R 60	R 64
Other		R 5	R 5	R 6	R 6	R 6
Total		R 715	R 761	R 811	R 858	R 920
Number of international exhibitors	**Annexure E**	417	433	449	465	481
International Exhibitor Days attending Exhibitions		2,249	2,335	2,421	2,508	2,593
Average number of days attending an exhibition		5	5	5	5	5
Additional Days spent at the Centre		2	2	2	2	2
Total Number of Days Spent at the Centre per Exhibition		7	7	7	7	7
International Exhibitor days at the Centre		3,083	3,201	3,319	3,438	3,555
Total International Exhibition Spend	**R'mil**	2,204	2,437	2,692	2,949	3,270

5.2 International Exhibitor Stand Expenditure

International stands sold per annum	**Annexure E**		83	R 87	R 90	R 93	R 96
Average cost per square meter			R 35	R 36	R 37	R 38	R 39
Average size of stand per exhibit (square meter)			10	10	10	10	10
Total International Exhibition Stand Expenditure		**R'mil**	29	31	33	35	37.4

5.3 Domestic Exhibitor Spend

Average spend per day

Inflation			6.5%	6.5%	6.5%	6.5%	6.5%
Accommodation			R 300	R 320	R 340	R 362	R 386
Meals and Beverage			R 125	R 133	R 142	R 151	R 161
Transport			R 50	R 53	R 57	R 60	R 64
Entertainment			R 100	R 107	R 113	R 121	R 129
Shopping			R 50	R 53	R 57	R 60	R 64
Other			R 5	R 5	R 6	R 6	R 6
Total			R 630	R 671	R 715	R 755	R 810
Number of Domestic Exhibitors	**Annexure E**		2,261	2,347	2,433	2,521	2,607
Domestic Exhibitor Days attending Exhibitions			11,258	11,686	12,119	12,555	12,982
Average number of days attending an exhibition			5	5	5	5	5
Additional Days spent at the Centre			2	2	2	2	2
Total Number of Days Spent at the Centre per Exhibition			7	7	7	7	7
Domestic Exhibitor Days			15,780	16,380	16,985	17,597	18,196
Total Domestic Exhibit Spend		**R'mil**	9,941	10,990	12,137	13,285	14,747

5.4 Domestic Exhibit Stand Expenditure

Regional stands sold per annum	**Annexure E**		452	R 469	R 487	R 504	R 521
Average cost per square meter			R 35	R 36	R 37	R 38	R 39
Average size of stand per exhibit (square meter)			10	10	10	10	10
Total Domestic Exhibition Stand Expenditure		**R'mil**	158	169	180	192	203

5.5 Local Exhibition Spend

Average spend per day

Inflation			6.5%	6.5%	6.5%	6.5%	6.5%
Accommodation			R 0	R 0	R 0	R 0	R 0
Meals and Beverage			R 0	R 0	R 0	R 0	R 0
Transport			R 30	R 32	R 34	R 36	R 39
Entertainment			R 0	R 0	R 0	R 0	R 0
Shopping			R 0	R 0	R 0	R 0	R 0
Other			R 0	R 0	R 0	R 0	R 0
Total			R 30	R 32	R 34	R 36	R 39
Number of local Exhibitions	**Annexure E**		1,137	1,180	1,224	1,268	1,311
Local Exhibitor Days attending Exhibitions			5,757	5,976	6,197	6,420	6,639
Average number of days attending an exhibition			5	5	5	5	5
Additional Days spent at the Centre			2	2	2	2	2
Total days Spent at the centre per Exhibition			7	7	7	7	7
Local Exhibitor days at the Centre			8,031	8,336	8,645	8,956	9,261
Total Local Exhibition Spend		**R'mil**	241	266	294	325	357

5.6 Local Exhibit Stand Expenditure

Local stands sold per annum	**Annexure E**	227	R 236	R 245	R 254	R 262
Average cost per square meter		R 35	R 36	R 37	R 38	R 39
Average size of stand per exhibit (square meter)		10	10	10	10	10
Local Exhibit Stand Expenditure	**R'mil**	79	85	91	97	102

6 Expenditure on Pre- and Post-conference tours in the Cape Metropole area

International Delegates

Share of delegates that would take a pre- and post-conference tour in the Cape Metropole area	39%
Length of pre- and post-conference tours in the Cape Metropole area	4 days

Domestic delegates

Share of delegates that would take a pre- and post-conference tour in the Cape Metropole area	18%
Length of pre-and post-conference tours in the Cape Metropole area	3 days

7 Induced Expenditure (International delegates)

Second-time Visitors

Percentage of delegates who will visit Cape Town once every four years	30%
Total number if the touring party	2.5
Length of stay in days	17

Third-time visitors

Percentage of second time visitors that will visit Cape Town every two year	25%
Total number in regular return tourist party	2
Length of stay in days	10

Tourist Expenditure:

Average expenditure per international tourist in the Cape Metropole	*(construction period)* 2001/2	2002/3	2003/4	*(full time operations period)* 2004/5	2005/6	2006/7	2007/8
Inflation per annum	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Avg. expenditure on accommodation	R 450	R 479	R 510	R 544	R 579	R 617	R 657
% Spent in the Cape Metropole	100%	100%	100%	100%	100%	100%	100%
Avg. expenditure on meals & beverage	R 150	R 160	R 263	R 280	R 263	R 280	R 263
% Spent in the Cape Metropole	100%	100%	30%	30%	30%	30%	30%
Avg. expenditure on transport	R 100	R 107	R 113	R 121	R 129	R 137	R 146
% Spent in the Cape Metropole	100%	100%	100%	100%	100%	100%	100%
Avg. expenditure on entertainment, shopping, etc	R 300	R 320	R 340	R 362	R 386	R 411	R 438
% Spent in the Cape Metropole	100%	100%	100%	100%	100%	100%	100%
Total average expenditure per international tourist in the Cape Metropole	**R 1,000**	**R 1,065**	**R 1,043**	**R 1,111**	**R 1,172**	**R 1,249**	**R 1,319**

Average expenditure per domestic tourist in the Cape Metropole							
Inflation per annum	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Avg. expenditure on accommodation	R 300	R 320	R 340	R 362	R 386	R 411	R 438
% Spent in the Cape Metropole	100%	100%	100%	100%	100%	100%	100%
Avg. expenditure on meals & beverage	R 125	R 133	R 263	R 280	R 263	R 280	R 263
% Spent in the Cape Metropole	100%	100%	30%	30%	30%	30%	30%
Avg. expenditure on transport	R 50	R 53	R 57	R 60	R 64	R 69	R 73
% Spent in the Cape Metropole	100%	100%	100%	100%	100%	100%	100%
Avg. expenditure on entertainment, shopping, etc	R 150	R 160	R 170	R 181	R 193	R 206	R 219
% Spent in the Cape Metropole	100%	100%	100%	100%	100%	100%	100%
Total average expenditure per domestic tourist in the Cape Metropole	**R 625**	**R 666**	**R 646**	**R 688**	**R 722**	**R 769**	**R 808**

8 Employment Skills Levels

high-level occupations	18%
mid-level occupations	31%
semi-skilled and unskilled occupations	51%
	100%

9 Average salary per month per direct or indirect employee

	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8
Building construction	2,375	2,529	2,694	2,869	3,055	3,254	3,465
Hotel and convention industry							
high-level occupations	8,171	8,702	9,268	9,870	10,512	11,195	11,923
mid-level occupations	2,918	3,108	3,310	3,525	3,754	3,998	4,258
semi-skilled and unskilled occupations	1,751	1,865	1,986	2,115	2,253	2,399	2,555
average for all occupations	3,268	3,481	3,707	3,948	4,205	4,478	4,769

10 Taxation Assumptions

% indirect & induced spend subject to VAT input tax credits	80.0%
average % turnover equal to taxable corporate profits	10.0%
average corporate tax rate	30.0%
average PAYE/SITE personal tax rate	19%
high-level occupations	23.1%
mid-level occupations	18.0%
semi-skilled and unskilled occupations	18.0%
VAT rate	14.0%
RSC levies on payroll	0.35%
RSC levies on turnover	0.14%

Source:

* Central Economic Advisory Services, Trade & Accommodation Multipliers for RSA.
** Per ICC Quantity Surveyors
*** ICC Business Plan

B. EMPLOYMENT AND GGP IMPACT IMPLICATIONS

			(construction period)			*(full time operations period)*			
			2001/2	**2002/3**	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
1 CONTRIBUTION TO EMPLOYMENT DURING CONSTRUCTION									
Direct and Indirect Components		R'000	0	332000					
Employment multiplier for the Western Cape	6.36								
Net contribution to employment in the Western Cape (# of jobs)			0	2110					
Employment multiplier for Cape Metropole	6.09								
Net contribution to employment in the Cape Metropole (# of jobs)			0	2021					
2 CONTRIBUTION TO GDP DURING CONSTRUCTION									
		R'000							
Total development cost			0	332000					
Income multiplier for the Western Cape	1.55								
Nedt addition to the Western Cape GGP		R'000	0	512959					
Income multiplier for the Cape Metropole	1.52								
Net addition to the Cape Metropole GGP		R'000	0	503911					

(construction period) *(full time operations period)*
2001/2 **2002/3** **2003/4** **2004/5** **2005/6** **2006/7** **2007/8**

3 CONTRIBUTION TO EMPLOYMENT DURING OPERATIONS

Total additional direct expenditure	R'000	0	0	302073	387726	482256	578160	683157
Employment multiplier for the Western Cape	5.47							
Total employment creation in the Western Cape (# of jobs)		0	0	1653	2122	2639	3164	3738
Employment multiplier for the Cape Metropole	4.58							
Total employment creation in the Cape Metropole (# of jobs)		0	0	1383	1775	2208	2647	3127

4 CONTRIBUTION TO GDP DURING OPERATIONS

Total additional direct expenditure	R'000	0	0	302073	387726	482256	578160	683157
Income multiplier for the Western Cape	1.65							
Net addition to the Western Cape GGP	R'000	0	0	498595	639972	796002	954299	1127605
Income multiplier for the Cape Metropole	1.59							
Net addition to the Cape Metropole GGP	R'000	0	0	478943	614748	764627	916685	1083160

		(construction period)		*(full time operations period)*				
		2001/2	**2002/3**	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
5 TOTAL CONTRIBUTION TO EMPLOYMENT IN THE WESTERN CAPE (# of jobs)		-	2,110	1,653	2,122	2,639	3,164	3,738
6 TOTAL CONTRIBUTION TO THE GDP IN THE WESTERN CAPE	R'000	-	512,959	498,595	639,972	796,002	954,299	1,127,605
7 TOTAL CONTRIBUTION TO EMPLOYMENT IN THE CAPE METROPOLE (# OF JOBS)		-	2,021	1,383	1,775	2,208	2,647	3,127
8 TOTAL CONTRIBUTION TO THE GDP IN THE CAPE METROPOLE	R'000	-	503,911	478,943	614,748	764,627	916,685	1,083,160

C. IMPACT ON THE TOURISM INDUSTRY

Number of international delegate days	8,636	10,777	12,871	14,682	16,727
Number of domestic delegate days	64,961	77,683	95,883	112,183	127,764
Additional room nights sold pa	73,597	88,460	108,754	126,865	144,491
Number of international conferences (Annexure: Projected Demand)	13	16	19	22	25
Average number of delegates per conference (Annexure: Projected Demand)	213	213	213	213	213
Number of international delegates	2,769	3,408	4,047	4,686	5,325
Number of national conferences (Annexure: Projected Demand)	370	443	546	639	728
Average number of delegates per conference (Annexure: Projected Demand)	97	97	97	97	97
Number of national delegates	35,890	42,971	52,962	61,983	70,616
Total number of additional tourists	38,659	46,919	57,652	67,405	76,766

Thus if: All international and national delegates use accommodation in the Cape Metropole
Then: In the 1st year of operation the ICC will attract an additional 2769 international and 35890 national tourists to the Cape Metropole
And: Due to the ICC, hotels will sell an additional 73 597 bednights in year 1
That is: Enough additional roomnights to fi to fill a 200

D. TAXATION CALCULATIONS

	(construction period)			*(full time operations period)*			
	2001/2	**2002/3**	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Estimated payroll as a result of the casino project during construction	0	5337	0	0	0	0	0
Estimated payroll as a result of the casino project during operations:	0	0	73561	100557	133203	170072	214021
high-level occupations	0	0	33150	45316	60028	76643	96448
mid-level occupations	0	0	20304	27755	36766	46943	59073
semi-skilled and unskilled occupations	0	0	20107	27486	36409	46487	58499
Estimated corporate profits	0	51296	49859	63997	79600	95430	112760
Estimated VAT on direct spend	0	40772	37097	47615	59224	71002	83896
Estimated VAT on indirect and induced spend	0	4445	4827	6196	7706	9238	10916
Estimated PAYE/SITE on payroll	0	961	14920	20395	27017	34495	43409
Estimated RSC levies on payroll	0	19	258	353	467	597	751
Estimated RSC levies on turnover	0	0	425	546	679	814	962
Estimated corporate tax	0	15389	14958	19199	23880	28629	33828
Total of major sources of tax income to governments	**0**	**61585**	**72485**	**94304**	**118974**	**144775**	**173762**

E. Breakdown of Potential Employment by Skill

	(construction period)			*(full time operations period)*			
	2001/2002	**2002/3**	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
Western Cape:							
High-level occupations	0	381	298	383	476	571	674
Mid-level occupations	0	653	511	656	816	978	1156
Semi-skilled and unskilled occupations	0	1077	844	1083	1347	1615	1908
Total employment opportunities	0	2110	1653	2122	2639	3164	3738
Cape Metropole							
High-level occupations	0	364	249	320	398	477	564
Mid-level occupations	0	625	428	549	683	818	967
Semi-skilled and unskilled occupations	0	1032	706	906	1127	1351	1596
Total employment opportunities	0	2021	1383	1775	2208	2647	3127